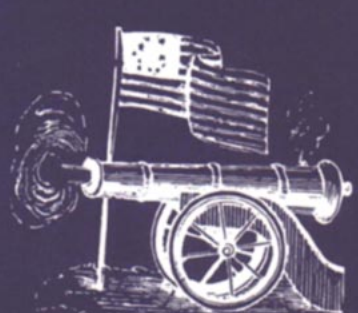
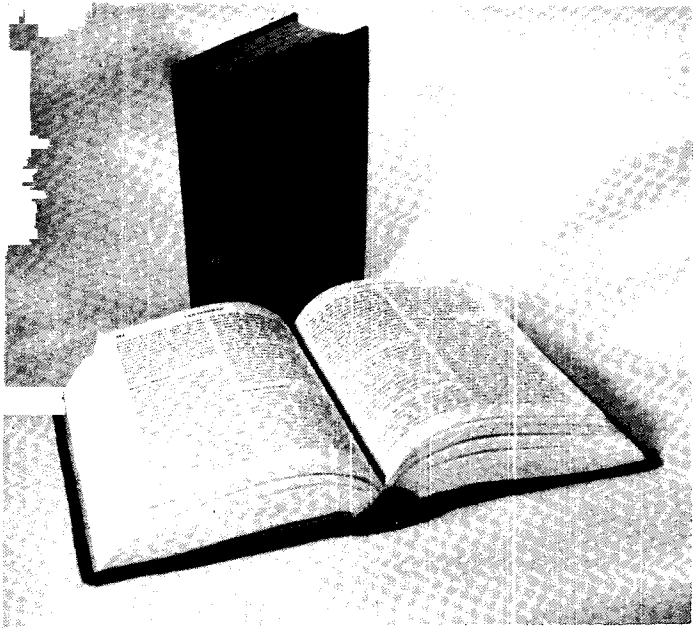
the Freeman

Ideas on Liberty

JULY 1975



LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



the Freeman 1974

12 Issues in One Bound Volume

Only $5.00

Attractively sewn in a single volume with hard cover, the twelve issues from January through December — 768 pages, fully indexed for handy reference to the latest literature on freedom.

Also available, the bound volumes for 1965 through 1973, each year $5.00. ($4.00 each on orders for five or more.) These bound volumes of *The Freeman* match in appearance and otherwise continue the twelve volumes of *Essays on Liberty* containing selections from Foundation releases prior to 1965.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Order from: The Foundation for Economic Education

the Freeman
VOL. 25, NO. 7 • JULY 1975

The Great American Revolution — Ralph Bradford — 387
Shall the real revolution continue to bear its fruit of freedom and opportunity?

Slings and Arrows — Joan Wilke — 394
A plea for greater freedom in medicine.

The Impact of Inflation on Management Decisions — William H. Peterson — 399
How monetary and other government controls disrupt production and trade.

Another Layer of Protection? — Earl W. McMunn — 412
Who is to protect us from our protectors?

Equal Opportunity versus Individual Opportunity — Anne Wortham — 416
The political duty is to uphold the right of each person to act upon the opportunities he perceives.

Profit and Loss — Brian Summers — 424
Toward an understanding of the formation and function of profits and losses in a free market economy.

Why Do "They" Turn to Socialism? — Edmund A. Opitz — 429
Some explanations of the current drift to the Left and suggestions for ways to restore freedom.

Book Review: — 445
"Two Cheers for the Affluent Society"
by Wilfred Beckerman

Anyone wishing to communicate with authors may send first-class mail in care of THE FREEMAN for forwarding.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

IRVINGTON-ON-HUDSON, N. Y. 10533 TEL.: (914) 591-7230

LEONARD E. READ *President,* Foundation for Economic Education

PAUL L. POIROT *Managing Editor*

THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

Any interested person may receive its publications for the asking. The costs of Foundation projects and services, including THE FREEMAN, are met through voluntary donations. Total expenses average $12.00 a year per person on the mailing list. Donations are invited in any amount—$5.00 to $10,000—as the means of maintaining and extending the Foundation's work.

Copyright, 1975. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid, to one address: Single copy, 50 cents; 3 for $1.00; 10 for $2.50; 25 or more, 20 cents each.

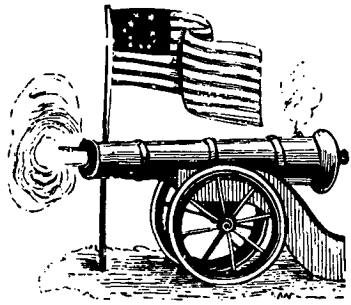
THE FREEMAN is available on microfilm from Xerox University Microfilms, Ann Arbor, Michigan 48106.

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit, except "Another Layer of Protection?" and "Equal Opportunity versus Individual Opportunity."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

RALPH BRADFORD

The Great American Revolution



IT HAS BECOME the fashion in our country to refer to every change or proposal for change as a "revolution."

When farmers first began to set up organizations to promote their interests it was dubbed the Farm Revolution. The movement to secure for black citizens the rights to which they are entitled was soon referred to as the Black Revolution. People of late have become aware of the dangers that lurk in water and air pollution; and so, in press and on television the Ecological Revolution has blossomed. Students become disenchanted with some course of study, or with dormitory arrangements; and when they become vocal about it – lo, there is a Campus Revolution!

And so it goes, *ad nauseum*. Let anybody advocate a sharp change of some kind, whether in the method of electing a congressman or choosing a village alderman, whether the aim is to lower prices, or to cut taxes, or to get better fire protection, or whatever, in no time at all he will be said to be heading a "revolution."

As a result of this resort to rhetorical pyrotechnics the word "revolution" has become commonplace, bland, watered-down – and dangerously deceptive. With respect to the real implications of revolution we have gone off into a kind of semantic euphoria. The word not only has no terror for us; it has become a mere symbol of change – change that may be somewhat sudden, dramatic and far-reaching, to be sure, but is on the whole beneficial and in the line of human progress and betterment. This of course is an illusion, a self-deception of tragic significance. All Americans and their institutions are the worse for it, because they are imperiled by it.

Several years ago an American politician who had achieved considerable eminence, and who at

---

Mr. Bradford is well known as a writer, speaker, and business organization consultant. He now lives in Ocala, Florida.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

least had the merit of making political debate a more literate exercise, made a trip through several of the South American countries. Wherever he saw evidence of political progress, or even discerned signs of impending change that he thought would be beneficial, he trotted out the "revolutionary" symbolism. The United States had been born of a revolution; we sympathized with the aspirations of all people who were trying to better their condition; and, in short, it seemed he was all for bigger and better revolutions among our southern neighbors.

Was he an incendiary, inciting those people to violence? Not at all. He was a gentle man who, I am sure, abhorred violence. The trouble was that he was using the word "revolution" in its watered-down sense. He was thinking of better government, probably some social security type legislation, some much-needed slum clearance, more and better education, wider observance of democratic procedures, and the like. He did not realize, apparently, that to most of his listeners "revolution" didn't mean the peaceful substitution of what he would call "progressive" ideas for what he considered "reactionary" ones. To most of them the term meant civil strife, political upheaval, barricades, blood in the streets, fire in the palace, and shouts of *a la pared* – to the wall with them!

Americans who talk glibly of the "revolution" they hope to see (meaning, of course, the adoption of their particular brand of political or economic salvation) need to understand that in much of the world, especially in the Marxist-dominated areas, there is nothing mild, bland, peaceful, gradual or merely "progressive" about the interpretation of that word. It is also clear, alas, that there is a growing element right here at home who measure revolution in the same scales, as their bombs, fires and rhetoric abundantly testify. No doubt there are some well-meaning people, both here and abroad, who see in Marxism only a peaceful, if somewhat drastic, political and economic program – just another philosophy of government. But such people are hopeless dupes. No matter how mild-mannered he may seem to be, cross a Marxist and you are apt to get the vituperative scorn of intolerance; scratch him and you get the blood of a revolutionist. He doesn't contemplate a nice, friendly, gradual and evolutionary reordering of society. He means action, violent action – fire, bombs, executions and the iron heel – all, of course, in the name of justice and humanity.

Is this an exaggeration? Ask of the ghosts of those Russian farm-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ers, the kulaks, who were "liquidated" by the millions, their crime being that they owned a little land and did not want to have it taken away from them. Ask at the graves of those nameless Chinese peasants who were mowed down by the murderous fire of Mao's executioners. Ask the people of Latvia; ask the Estonians; ask the Hungarians; ask the family or friends of those East Germans whose only offense was their desire to escape to freedom, and who left their bullet-shattered bodies beside the imprisoning Wall as testimony to the brutal efficiency of "revolution."

At this mention of the Berlin Wall and its victims, someone may well summon up the specter of Hitler, and remind us that blood and tears and unspeakable cruelty were practiced by that madman and his goons – and that theirs was not a communist regime. And the answer is: quite true – and beside the point. Or rather, in support of the point. In the first place, the Hitlerian movement started out as a socialist putsch. Even the hated name Nazi was only an abbreviation of the German for National Socialist. But it soon went far beyond the relatively mild proposals of the English Fabians and became a totalitarian dictatorship. And it achieved its ends by revolution – not so declared, but so executed. From the Marxist point of view it was a revolution in reverse; but it was a revolution, none the less. The techniques of brutality practiced by the Russian and Chinese revolutionaries of the left were equally effective instruments for the German revolution of the right.

What's to Celebrate?

Now I can imagine someone echoing an old and familiar refrain: "But why get excited about revolution? Our nation is a product of revolution. Right now we are beginning a year-long celebration of . . . ."

Of what, friend? A revolution? That's what a lot of people think and say, because our long-ago War for Independence got tagged in the history books as a "revolutionary" war. It was not that at all, in the true sense of the word.* It was a fight for *independence,* not for radical social and economic change. The Colonial leaders were not out to rewrite the laws of England. They didn't propose to abolish Parliament, or fire the Prime Minister, or sink the Royal Navy. They had many grievances against King George, and they set them forth boldly; but they didn't suggest dethroning him. They didn't want to destroy him, either as king or

* See the author's article "The Great Anniversary Festival" in the May, 1975 issue of *The Freeman.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

man, any more than they wanted to destroy the British government. They simply wanted to be free of both – to escape the frustrations imposed by a nagging and rather stupid bureaucracy. They were quite content to see the mother country survive and prosper; and when they had finally won their war and achieved Independence, they based their institutions and philosophy of government on the same concepts of individual liberty that had long been dear to the hearts of Englishmen.

Actually the "revolution" that we ought to venerate was not a thing of armies and battles. Nor did it begin, as orators like to assert, with those shots that were fired " by the rude bridge" – shots that were "heard round the world." That episode, and even the bloody fighting at Bunker Hill, were but tragic small scenes in a continuing drama that had started long before. Some forty years later, an aged John Adams, looking back, was to write that even the war with England was "no part of the Revolution." And he went on to assert that "the Revolution was in the minds and hearts of the people, and this was effected from 1760 to 1775, in the course of fifteen years, before a drop of blood was shed at Lexington."

Maybe the old gentleman retrospectively overestimated the sentiment that prevailed during those fifteen years. Probably most of the people were not greatly agitated in their "hearts and minds." Impatient – yes. Disgusted – to be sure. Fed up – of course. But such disgruntlement is not the stuff of revolution, which must be fed with the fires of fundamental beliefs and convictions. Even in 1776 there was yet no overwhelming desire for the radical change of independence, and small appetite for a war to achieve it – and this despite great indignation over the irritating small tyrannies (and some great ones) of a succession of stupid British ministries.

The Idea of Liberty

But in a deeper sense the "hearts and minds" phrase was significant; and its symbolism reached much farther back than the fifteen years Adams mentioned. It covered the whole life-span of the Colonials, and that of their grandparents. For there *was* a revolution going on and slowly coming to maturity, in the thinking of men concerning the institution of government, their proper relationship to it, and its effect upon their welfare and happiness. The philosophy back of *that* "revolution" had been dimly apprehended by many and brillianty expressed by a few, back through the years. Even crusty Samuel Johnson, no friend of American Inde-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

pendence, was a stout exponent of individual liberty, the desire for which was at the core of the American cause, not only during the war years, but in the attitude of the Colonials for decades before.

And nearly a century before the Second Continental Congress formulated its great Declaration, John Locke had written that "rulers hold their power not absolutely but conditionally, government being essentially a moral trust, forfeited if the conditions are not followed by the trustees." That principle, nearly a century later, was to be the essence of the Colonial position. In the Declaration of Independence Jefferson phrased it thus: "We hold these truths to be self-evident, that . . . governments are instituted among men, *deriving their just powers from the consent of the governed.*" The words were the Virginian's; the sentiments were those of Locke, rephrased but identical as to purport – which was that the citizen and not the government is the source of authority; and that it, not he, is the creature. It was the sentiment foreshadowed long before Locke in the Petition of Right, the Second Magna Carta, so to speak, which was wrung from Charles I in 1628.

The specific findings of that landmark document dealt with very practical and mundane matters. Taxes were to be levied only with the consent of Parliament, which represented the people, rather than the Crown. A man's home was his castle, inviolable by the military. No martial law could be imposed in time of peace. Trial by jury was guaranteed to all. These are all things that are now taken for granted; but they were won for the masses of men only by long, stubborn, and sometimes painful, persistence. They were often flouted in later years, these principles; but they were never forgotten and never abandoned by Englishmen. It was the passion for individual liberty embodied in such findings that was the real American revolution – long developing over the decades, and now in 1776 come once more to the test of sacrifice and the harsh proof of war.

Framing a Constitution

And when the struggle for Independence was won, and the weary but victorious Colonials set out to formulate and establish their own new nation, they clung to those simple but powerful "revolutionary" ideas. To a constitutional convention they sent men who were thoroughly acquainted with the physical make-up and political needs of the young nation. They were also men who were generally well versed in the writings of the great social and political philosophers of their century – not only

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

with John Locke whose "social contract" philosophy was at the heart of Anglo-American political ideals, but with the eminent French magistrate and essayist, the Baron de Montesquieu, whose doctrine of the separation of the legislative, executive and judicial functions of government became a cornerstone of American policy, and with the work of Sir William Blackstone, the noted expounder of law in terms of its human impact.

The wisdom of these men and other sages, plus their own broad experience in government and their passion for freedom and justice, was put by the delegates into the making of a Constitution for the new republic – a document generally regarded, not only here but throughout the world, as the nearest thing to perfection yet achieved in the realm of fundamental law. Note please the slight qualification in that phrase "the nearest thing." Nobody I suppose, would claim it is perfect. It has some vague areas and some contradictions. More than one President has had difficulty reconciling some of its particular provisions with its over-all declaration of purposes – as when Lincoln, in order to "insure domestic tranquility," suspended the right of *habeas corpus* – an action that was clearly in violation of certain Articles of the Bill of Rights. But such problems are to be expected in a complex society – which is one reason why the President is the *Chief Executive*. It is part of his job to cut Gordian knots. He will be called on from time to time to make close decisions, and must occasionally determine whether the specific provision of some perfectly good and sound Article is at that particular moment outweighed by the general - welfare - common - defense - domestic-tranquility clause. That's why he is *there*. And besides, there is always final recourse to the Supreme Court, which was created by the Constitution itself to resolve all such soul-searching dilemmas.

The Test of Time

At all events, there it stands, the mainstay of fundamental law. Amended from time to time to meet current needs (and sometimes to satisfy current prejudices), and buttressed by its integral Bill of Rights, it has served a growing, geographically expanding nation for 187 years and is still alive and well. Under it the nation grew great and strong domestically, and reached also a position of world leadership. It withstood the shattering experience of the Civil War, weathered the stresses of two devastating world conflicts, and has served as a guide to many of the so-called emerging nations of the present generation. Even the most

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

shattering crisis of our history, involving a change of leadership under conditions that could have been utterly demoralizing, only served to demonstrate the strength and dependability of the political system which it embodies.

All this is not meant to be a starry-eyed exercise in jingoistic patriotism. Our nation is, after all, governed by men – biped creatures of limited intelligence and fallible judgment, like the citizens who elect them to office. Political man especially, being strongly ego-centered, can not always be expected to place the public interest above his own. We have had our political trickeries, our scandals, our crooks, our criminals, our injustices. We have also made our national blunders in both domestic and foreign affairs. All of which is simply to say that we are human beings, who sin and err in about the same ratio of imperfection as is exhibited by other peoples of our beautiful Blue Planet.

But a point to remember is that our country was not supposed to be inhabited by supermen. The framers of our basic law had no idea of founding another Utopia. They were not erecting an eleemosynary institution, nor building a house of correction. They were not out to make men perfect. They were intent only on creating a governmental mechanism under which men, perfect or otherwise, would be free to realize their full potential – to gain whatever status of wealth, achievement or intellectual attainment their abilities would enable them to achieve.

To dream up such a state, endow it with all powers necessary for sovereignty, yet limit and hedge those powers about with provisions for the protection of the average citizen; to provide an ambiance for the fullest development of which men are capable, and yet leave them free to do with their lives what seems best to them; to exact of them only that minimum of conformity necessary for the protection of all; in a word, to create a governmental condition for the greatest possible exercise and enjoyment of personal freedom – this was the dream, this was the practical reality, this was the final outcome of "The Great American Revolution."

The question now to be answered by the American people is, Shall the dream endure? Shall the "revolution" continue to bear its fruit of freedom and opportunity? Or shall our nation, like other great States, ancient and modern, sink slowly under the burden of political expediency, bureaucratic ambition, unlimited debt, and ruinous inflation?

Viva the Revolution! The *real* one, that is.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

JOAN WILKE

LINGS and ARROWS

Any legal system that awards material compensation for the incidents and accidents of "outrageous fortune" produces an outrageous society.

THE PRACTICE OF MEDICINE is in a legal bind that is costing countless lives and creating untold misery.

While bureaucratic blockages continue in the Food and Drug Administration, some people find it necessary to leave the country for the medicines they need to stay alive. In hospitals across the country, the simplest procedures to avoid pain and complications are prohibitively delayed to accommodate procedures necessary to protect doctors against possible lawsuits. The red tape takes time and time can be a killer.

A number of things have contributed to this situation.

For one thing, in this welfare world, people are psychologically attuned to believing nothing should go wrong – and if it does, they should be paid for it. If they lose their jobs for any reason, doesn't their employer have to pay compensation? Of course – even if they're fired for incompetence or simply quit out of discontent.

In recent news stories, a woman brought suit for $130,000 for not being hired as a *volunteer* fireman. Another person is bringing a million dollar suit against the city for an auto accident in which a family member was killed. A bus company is being sued for a mugging that took place on its property. And a frostbitten hiker rescued from a mountain top in a winter storm is suing the rescuers for not reaching him faster.

Generally speaking, every time a person makes a welfare claim he also is bringing suit for food, shelter, wages or other benefits. He sues his friends, neighbors, everyone for his misfortune. It's certainly no more absurd to fix responsibility for ill health and acci-

Miss Wilke is an advertising writer.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

dent than for unemployment or insufficient income.

While it is astonishing that people will "bite the hand that feeds them," it is so well established in the prevalent hostility toward enterprise and industry that we shouldn't be shocked when people also slap the hand that helps them medically.

The attitude that nothing should go wrong in life and all reverses should be materially compensated is carefully cultivated by the false assurances of our omnipresent government controls. Supposedly when government controls everything, everything is supposed to be all right. Actually, it only prevents anything from going right when it diverges from its peacekeeping function.

Certainly progress has been slowed by the findings, delays, reversals, uncertainties, new findings and political machinations of the FDA. But the FDA is not bad because it's slow, confused or wrong. It's bad because it *exists*. There's simply no way it can ever be right.

Across-the-board medical decisions are impossible to make. The vast physiological differences in people make it a certainty that what is right for one person will be wrong for another.

Individual error is a fact of life – something we all have to live with. But error that becomes institutionalized through government controls is something we shouldn't have to tolerate. We shouldn't give power to other people's mistakes.

Controls Have Consequences

By the sheer threat of its implacable presence, the government has stifled advances in medicine, not allowing the free market to work its wonders.

For one thing, the FDA holds that anything is harmful if it is harmful in large quantities. If universally applied, that would certainly make everything harmful. As a political body, however, the FDA is characteristically selective in its applications.

Its rulings never apply to city governments that continue to pour fluoride into our drinking water although it causes pitting in the teeth of adults and is poisonous in large quantities. Youngsters' fluoride needs are more safely provided by the market in toothpaste products.

Meanwhile, milk advertising is attacked on the basis that milk is not good for everyone – such as those with an allergy to it.

Medicines are assailed for having "ineffective ingredients," whereas Mary Poppins and every good marketing person knows it takes "a little bit of sugar to make the medicine go down."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

How to Stop Progress

If consistently applied, government "protection" could wipe out all the medical advances since the discovery of anesthesia. And incidentally, anesthesia is harmful to some, and to anyone in large quantities. While bureaucrats fuss over their decisions, people are suffering and dying.

How could two bureaucrats ever agree anyway? Doctors and scientists don't agree among themselves in many cases. And of course there's nothing that couldn't be harmful to someone, somewhere, under some circumstances.

While that elusive one-in-a-million person is protected in one way (harmed in others) by government action, hundreds and thousands are denied the benefits of needed ministrations.

The government also fosters a false sense of security through licensing. And here again, government controls keep unavailable the services which could be helpful to many people.

In spite of the frequent benefits of acupuncture, for example, try to find a practitioner in your telephone book. If we are protected from these helpful people, the standards of acceptance for licensing must be exceedingly high, right? Wrong.

A spokesman for the AMA recently stated that "the inept must be ferreted out of the organization." Then what could be clearer than the fact that licensing has not performed any safeguarding function.

Secrecy Maintained

The government and the AMA have built secrecy around the medical profession that shouldn't exist. This cliquishness is reminiscent of the awesome aura and sacrosanct position of the medicine man in primitive tribes. His monopoly had the approval of the chief. Today's doctors and medicines have the approval of the government. And that's about all we know about them.

In many cases, people go to a doctor with nothing more than the chance recommendation of a friend or acquaintance. They know very little about him. It was different when people lived in the same town all their lives. But in our mobile society, newcomers have no information on which to base a decision. In fact, it's not allowed.

Any doctor who makes news with some exciting ideas or treatments is in danger of losing his position. It's something of a crime for a doctor to get publicity. It's unethical. It's awful! But why?

When you choose a doctor you could be making a life and death decision. Certainly you should have as much information as possible

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

on which to base your decision. This is someone you should want to know quite a bit about.

Let the Facts Be Known

I believe it is unethical for doctors *not* to get publicity and I think advertising by doctors would be very helpful. With information available, you could make your decision on the basis of the doctor's background, his experience, any approach he uses that is different from others in his field, and so on. And you'd also know who else is available and their backgrounds. To me, this is a lot safer than getting a recommendation from a hairdresser or picking a name that sounds nice out of the yellow pages.

After choosing the doctor you think you can put the most faith in and soliciting his aid, it would be nothing but barbarian to bring charges against him, even in the case of error. The only basis for a legal case against a doctor should be misrepresentation as to his background, education or experience.

Public information about doctors, more than anything else, would act as a safeguard. Public declarations have to be truthful. They're legally assailable, but basically they're truthful in order to fulfill their function. Falsehood makes its way in politics, but in the market place it's quickly discovered.

As for medicines, the personal opinion of a doctor in the case of an individual patient is obviously safer than the judgment of a bureaucrat thousands of miles away trying to determine what's right for crowds of numbers averaged into statistical lumps.

Government controls standardize mistakes, disrupt efficiency, delay progress and prolong suffering. And they are generally demoralizing.

At a time when we need more, not fewer doctors, malpractice suits and insurance costs are adding to the disruption of the medical field already suffering government manipulation through inflation, welfare programs, education practices and limited entry.*

Legal suits and insurance requirements are discouraging people from becoming doctors and driving others out of practice . . . threatening the future of all medical care. Some doctors are avoiding specializations where risks are high, such as brain surgery. Others are relocating geographically to areas where insurance is less costly.

* For an authoritative explanation of how government has created doctor shortages, overlong hours on duty and the like, see "The Medical Market Place" by A. R. Pruit, M.D., THE FREEMAN, February, 1971.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Only a free market in medicine can get the health field back in the pink. Without government blockages, there would be more doctors, more levels of practice, more levels of prices, more general care available, more discovery and progress.

Would there be more negligence in hospitals without the threat of malpractice? On the contrary, it is that costly threat that is now paralyzing medical practice, extending risks, delaying action and costing lives.

In summary, malpractice should be included among the other government controls such as the FDA and licensing, which are curtailing medical activity and threatening the nation's health. Malpractice suits are a psychological spin-off of the welfare system where misfortunes are not to occur without compensation. These suits are costly to everyone, not only in dollars but in pain.

There should be no legal basis for any malpractice suit against a doctor because:

1) all life is uncertain and human error is a fact of life;
2) patients are physiologically different, making medical practice unpredictable;
3) qualified doctors will differ and vary in recommended procedures, each acting in his own best judgment;
4) those seeking a doctor's services voluntarily must know they are taking a necessary risk. Any medical treatment is risky. If they don't want to take that risk, let them cure themselves. Or sue themselves.

As things stand, doctors are regarded as more than human – and everyone else less than human. Doctors should be regarded as human and capable of error. And patients should act more human by bearing the responsibility for their decisions. Information should be available on which to base those decisions.

Actually, it's a wonder no one has sued a doctor for bringing him into this risky old world in the first place. That is the underlying basis for every compensatory claim. It is a complaint against life itself. We are born into an uncertain world. There is nothing certain about a job, or an operation – or walking down the street.

Shakespeare wrapped the whole issue up in that tidy phrase, "to be or not to be." It is a question that few in history have had the opportunity to ask themselves as we in America have. We answer it affirmatively whenever we act responsibly on our own.

We can only *be* by making our own informed decisions freely in an open market and then honoring those decisions in our relationships with each other.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

WILLIAM H. PETERSON

The Impact of INFLATION on Management Decisions

RECESSION, I submit, is the unwanted offspring of inflation. Inflation is of course the all too familiar problem of too much money (demand) chasing too few goods (supply), with the upshot of prices and expectations everywhere tending to rise higher and higher.

How should business managers cope with inflation? This paper seeks answers to that question.

To do so we should define our terms. What is management? What is business? And what is at stake in the onslaught of inflation?

A reading of Peter Drucker's new book, *Management: Tasks, Responsibilities, Practices,* leads me to the following in answer to the question, What is management?

The answer is manifold. Management is planning. Management is organization. Management is responsibility. Management is profitability. It is also leadership, discipline, practice, performance, accounting, marketing, tasks, communication and information. Management is – in the final analysis – decision-making.

But making decisions on whose behalf? Management's? The employees'? The shareholders'? The community's? The business' as a whole? Not really.

For what is business? Business is service. Or, to put it baldly, business is a hired servant. Hired by whom? The consumer. Yes, business is guided by profitability, by its own self-interest; yet it is subject to the sovereignty of the consumer. As Ludwig von Mises pointed out, "Production for profit is necessarily production for use, as profits can only be earned by providing the consumers with those things they most urgently want to use."

So the test of a manager's decisions is profitability – the extent

---

William H. Peterson is the John David Campbell Professor of American Business, American Graduate School of International Management, Glendale, Arizona.

This article is from a paper delivered before a symposium of the Academy of Political Science at Columbia University, November 11, 1974, under the overall topic of "Inflation, Fiscal, Social and Economic Impacts." Data herein on the 1974-75 recession have worsened since this paper was given.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to which he increases revenues and cuts costs. Business management is profit management. Consumers reward efficient management with profits and penalize inefficient management with losses.

Now, what is at stake when we weigh the impact of inflation on management? Remember that business – or, more broadly, the private sector – is the principal source of jobs: Of our total labor force of about 94 million, government furnishes only 16.5 million jobs. This includes more than two million members of the armed forces. With 5.5 million presently unemployed, this means that business, including agriculture and the professions, furnishes the remainder – around 72 million jobs. Business is also the source of most economic output. Thus it generates the bulk of real income in our society – food, clothing, shelter, transportation, medicine, information, and the like.

So what is at stake in the onslaught of inflation? Nothing less than the survival of the business system itself. Note that while I tick off the inflationary distortions on management decisions, I reserve the greatest distortion until last – the possibility of a sharp recession or even a depression.

Managers can get a fast overview of the problem of coping with soaring prices by simply noting how the process of inflation distorts the traditional functions of money.

Impact on Functions of Money

Money, we were told in Economics 101, is first and foremost a *medium of exchange.* Quite obviously, then, under inflation the purchasing and employment managers will find that, economize though they may, more and more money is required to buy the same amount of goods and services, including labor. The pricing manager also must be quick on his feet to avoid a cost-price squeeze; hence he must seek to keep his prices ahead of costs as far as competition and other factors allow.

Ironically, money has become such a "hot potato" that some managers, especially those involved in international transactions, don't want to hold it and prefer goods instead. Indeed, some managers trade raw materials for finished goods and vice versa. Thus, through swap arrangements, they alleviate shortages while retreating from money as a medium of exchange.

Too, Eco. 101 reminded us money has a *store of value* function – the retention of purchasing power over time. Inflation, however, is a thief of that power. The financial manager is thereby under pressure

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to put his liquid assets to work as rapidly as possible. Bluntly, he must hedge against inflation, balancing his choice of investments between yield and risk. He will also seek to expedite the collection of accounts receivable, exacerbating the general squeeze on liquidity.

Again, money is a *standard of value* – a unit of account, a yardstick for relative prices. Inflation similarly distorts this function of money by shrinking this key accounting measurement. A dollar is no longer a dollar over time; it is no longer predictable; it no longer permits accurate economic calculation; it is 80¢ or 70¢ or 60¢ and so on, depending on the length of time and the pace of inflation; and all historical financial records thus call for careful interpretation. The usual tool to accomplish such interpretation is the concept of constant dollars which allows some comparability among accounting periods.

I say "some comparability" for changes in the Consumer Price Index, the Wholesale Price Index and the GNP Implicit Price Deflator can still not be considered scientific measurements of inflation. Inflation is notoriously uneven, with some prices advancing rapidly, some moderately and some lagging behind.

Constant dollars are an especially inadequate tool for multinational corporations. They use different currencies, each with a different history of inflation. Also, rates of inflation and rates of exchange in money markets vary, rendering translation of foreign currencies into U.S. dollars for consolidated financial statements much more difficult.

Lastly, Eco. 101 assigned a fourth function to money—a *standard for deferred payments*. One of inflation's most bitter repercussions is that it warps all debtor-creditor relations. In other words, money as a standard for deferred payments has all too often become a shrinking standard. The borrower is thereby able to repay his debt with cheaper money than that he initially borrowed. In other words, inflation fleeces the creditor. This hard fact of our inflationary era means financial managers have to adjust their lending activities, such as acquiring commercial paper and certificates of deposit. By the same token, finanial managers have to adjust their borrowing activities, such as getting bank lines of credit and issuing corporate bonds. Lending or borrowing, financial managers should recognize that the largest single element in the height of interest rates today is the level of inflation, currently at a two-digit level.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The foregoing section points up some current monetary distortions. My purpose in this paper is to give some perspective to the management side of inflation and to detail some ramifications of the impact of inflation on the decision process. In particular, I wish to briefly examine the distortions of inflation in the decision areas of profits, inventory, capital investment, wages, international operations, price controls and the business cycle.

The overriding distortion is informational. Good decisions are dependent upon good information. Much if not most of that information, however, is undermined both quantitatively and qualitatively by inflation. It therefore behooves managers to seek to correct, as best they can, their information for inflation.

Impact of Inflation on Profit Calculations

In 1974 people in high places have been charging that corporate profits are "excessive," "unconscionable" and even "obscene." These adjectives sound hollow against the backdrop of a disastrous stock market. The words sound even more hollow when corrections of profit figures are made for inflation.

Dramatic results are obtained with three major corrections:

1. *Underdepreciation of plant and equipment, due to depreciation allowances based on original cost rather than replacement cost.* This practice has long led to a general overstatement of corporate profits, with consequent overpayment of corporate income taxes and even overpayment of dividends. These result in diminution of potential capital formation. Tax authorities have recognized this problem and have dealt with it to some extent by setting up investment tax credits and accelerated depreciation methods. Financial managers have taken advantage of these provisions to varying degrees. Yet these provisions have proven to be inadequate in view of our two-digit inflation. Both tax authorities and financial managers would be well advised to recognize this depreciation deficiency and the drag it imposes on economic growth – on the economy as a whole and on each individual enterprise. The average age of American plant and equipment continues to lag behind that of our major industrial competitors overseas, and behind what is needed to meet the expectations of our growing population. So still more realistic and competitive depreciation methods are clearly needed.

2. *Allowance for the inflation that has diminished the profit dollar.* Inflation has eroded the pur-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

chasing power of the dollar by more than 40 per cent since 1965. So on this count alone, and despite more than a trillion dollars (in today's prices) poured into plant and equipment, corporate profits have shown but minor increases since 1965 in real terms. For as sensible is the conversion of money wages into real wages, so financial managers can sensibly convert money profits into real profits.

To be sure, second quarter results in 1974 were about 25 per cent ahead of those of the second quarter of 1973. But price controls came off completely April 30, 1974, allowing many firms to catch up with true supply and demand. Moreover, if the spectacular gains of some basic materials industries are excluded, along with the atypical profits of the auto industry, the bulk of industrial companies made only a moderate increase of 10 to 11 per cent in the first half of 1974 – just about equal to the rate of inflation.

In any event, corporate financial and public relations managers may want to deflate their profit figures and remind the public of the corporate return in *real* terms. Yet these managers are frequently reluctant to do so, beholden as they are to shareholders and given to pointing with pride to "record" profits. The economy therefore suffers because of management's desire to show good earnings during an inflationary era.

3. *Overstatement of profits because of the understatement of inventory values.* Some authorities call inventory gains "phantom profits," which disappear the moment inventory is replaced. The magnitude of inventory profits can be seen in the Commerce Department calculations of $37.9 billion annual rate in the second quarter of 1974, up from $31 billion in the first quarter and $20 billion a year earlier. For perspective, after-tax corporate profits ran at a seasonally adjusted annual rate of $85.6 billion in the second quarter of 1974, up only $500 million from the first quarter, despite $6.9 billion of inventory profits.

To put their own corporate profits in a truer light, quite a few financial managers are switching from first-in, first-out (FIFO) to last-in, first-out (LIFO) for more accurate inventory valuation. It's about time. In an editorial on October 1, 1974, the *Wall Street Journal* criticized those financial managers who got caught up in the earnings-per-share mystique and used FIFO to that end. With rising inventory prices, FIFO permitted higher reported earnings all right, but it also permitted – in fact, required – higher taxes on those earnings. Indeed, FIFO thereby fostered less capital to in-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

vest for long run returns. Capital markets don't ignore such unrealistic accounting. The *Journal* referred to a study by Shyam Sunder, an accounting professor at the University of Chicago graduate business school, in which 118 LIFO firms listed on the New York Stock Exchange outperformed the market in stock price appreciation by 4.7 per cent.

Economist George Terborgh of the Machinery and Allied Products Institute in Washington, D.C. has made all three of the foregoing adjustments to 1973 corporate profits. He found that such adjusted profits came to less than 60 per cent of what they were in 1965. Retained earnings, he found, were down even more significantly; they were but around $3 billion, or 16 per cent of what they were in 1965. The portent for real capital investment and real economic growth in the immediate future is hence not very great, mainly because of the disastrous inflation we have been incurring for the past two years.

Impact on Inventory Planning

Inflation also muddies inventory planning, as can be gathered from my references to LIFO-FIFO accounting methods. Ideally, the inventory-sales ratio should be kept as low as feasible so as to minimize the cost of storage and the cost of money tied up in inventory.

But inflation creates all manner of uncertainties because of rising prices in raw materials, semi-finished and finished goods. As these prices rise, purchasing managers naturally undergo temptations to "beat the gun" by accelerating their forward buying. The purchasing manager of course realizes that his cost of storage and tied-up money will thereby go up. But he may hold that these costs are more than offset by being able to obtain inventory at lower prices than he could later. Too, with a surge of buying he may also begin to worry about availability and delivery delays. So, he inadvertently adds to speculative activity and puts pressure on prices, as he accelerates his forward buying. With all this, however, his inventory-sales ratio may not advance if other purchasing managers adopt the same hedging behavior and also increase their forward buying; the result is that as his inventory climbs, so do his sales. This would be especially true if the purchasing manager is in a basic materials industry. But such inventory build-up behavior, stimulated by surging demand, tends to be short-lived.

For on this score alone, inflation may be contributing to a key factor in the business cycle – inventory buildups, which can lead to a boom, and inventory liquidations,

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

which can lead to a bust. Ironically, the liquidations in effect contribute to deflationary pressures on the very price-inflated commodities and goods that brought on the inventory build-up in the first place.

Impact on Capital Planning

In like manner, inflation disrupts capital planning. Business may be good and the backlog long, but the long-run outlook remains unclear. The planning manager is thus put in the same quandary as the purchasing manager. On the one hand, he doesn't want to tie up his financial resources in the fixed costs of under-utilized plant and equipment and incur the burden of unnecessary overhead. On the other hand, he is lured by the possibility of obtaining capacity at a significantly lower cost than he could in later stages of inflation; and, he hopes, maybe his order backlog won't evaporate.

This quandary is especially visible in the basic materials industries such as energy, metals, paper, chemicals, and so on. These industries are extremely capital-intensive. Moreover, because these industries lend themselves to significant economies of scale and require long lead times for new facility construction, new capacity demands tend to come in lumps rather than in evenly spaced-out requirements.

The process is exacerbated by inflation and the business cycle which give wider swings and a feast-famine aspect to the capital goods industry. This aspect is inherent in the capital goods industry anyway, as the accelerator theory of J. M. Clark demonstrates. This theory says that a change in demand for consumer goods tends to have an accelerated change in the demand for capital goods, assuming that the economy is operating at full capacity. Inflation accentuates the problem of the accelerator by giving exaggerated indications of consumer and capital goods demand.

Inflation and the business cycle itself seem to be initiated by credit expansion and artificially low interest rates, both aided and abetted by the central bank. The low interest rates give businessmen false signals of genuine capital availability made possible by savings when the fact of the matter is usually a central bank speedup of money supply growth. The speedup provides the familiar scenario of too much money chasing too few goods, winding up in "stagflation" – a combination of inflation, extremely high interest rates and economic stagnation. (The cyclical process is spelled out more fully at the close of this paper.)

The scenario comes at a bad time. Capital formation has lagged

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

for a long time in America. The American economy must modernize and expand its plant and equipment to accommodate its growing labor force, to reach its energy and ecological goals and to compete in an increasingly competitive one-world economy.

International competitiveness has been rising at the same time that the U.S. has been lagging behind its major overseas competitors in the pace of investment. Here are comparative rates of capital investment for 1973, using gross private domestic investment as a percentage of GNP:

United States	16 per cent
West Germany	26 per cent
France	28 per cent
Japan	37 per cent

So U.S. capital needs are enormous. The New York Stock Exchange has just completed a careful technical study on the capital needs and savings potential of the U.S. economy through 1985. The study aimed at developing realistic projections of U.S. capital supply and demand over the next 12 years. For this period the study came up with the following quantitative conclusion:

Saving potential	$4,050,000,000,000
Capital requirements	–4,700,000,000,000
	$ (650,000,000,000)

In other words, the numbers suggest that the present estimated saving potential in the American economy through 1985 – from all domestic sources – is slightly better than $4 trillion. At the same time, capital demand or requirements will possibly hit a grand total of $4.7 trillion, or more than three times the rate of the previous twelve years in current dollars. The painful indicated capital gap – fraught with human misery – is hence estimated at $650 billion or $54 billion a year. Continued inflation can only compound this problem, impeding, as it does, the two critical processes involved in capital formation: saving and investing.

Impact of Inflation on Wages

Wages constitute some three-quarters or more of all industrial costs, or much more than most businessmen seem aware, inasmuch as a large fraction of this amount is paid indirectly in the form of purchased goods and services. These goods and services, in other words, themselves embody much labor cost.

The point is that cost-push inflation is largely wage-push inflation. So, to quite an extent under the doctrine of "full employment," as wages go so goes inflation. In any event, given the state of our relatively one-sided collective bargaining today in what Sumner Slichter of Harvard called our

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"laboristic" economy, the industrial relations manager can not do a great deal to soften the terms of the labor contract, other than to inform his opposite-number union negotiators of the state of the industry and his company, the competitive realities and the stage of the business cycle. Also, he can advise top management whether the company should accept a strike as a way of winning more amenable terms.

With all this, however, the traditional collective bargaining areas of wages, hours and working conditions will likely be set in contract provisions not entirely to the industrial relations manager's liking. Inflation tends to induce work laxity. Working conditions, for example, may be characterized by restrictive work practices, which of course hamper labor productivity improvement – practically the only source of real wage gains. Lessened productivity, in turn, contributes to the inflationary situation of "too few goods."

Some of these restrictive work practices are obvious and direct. For example, size restrictions on the width of paint brushes and rollers, a 150-mile definition of a "day's work" for trainmen, a limit on the size of cargo slings used by longshoremen, a typographers union requirement that "bogus type" be set as an offset to the use of advertising mats. Some restrictive work practices are indirect and not so obvious. For example, hiring hall arrangements in some fields of employment and control of the labor market by limiting entrants to a particular labor force such as construction.

Importantly, too, the wages provision of the labor contract is similarly inflationary when agreed-upon wage increases exceed productivity gains and worsen the unit labor cost picture of the firm. The firm is thereby under pressure to recoup the added cost burden from its customers. It will unquestionably do so if the union contract is in the industry pattern and if the banking system has in effect accommodated the higher wages with greater demand. If the accommodation isn't made, unemployment will likely expand. Even with such accommodation, unemployment will still ultimately expand because of the additional demand pressures created by the new money leading to uneconomic higher unit labor costs. Demand by employers is likely to falter anyway as inflation brings about excessive minimum wages and labor union settlements over and above market demands. In any event, the long-run correlation between increases in unit labor costs and the rate of inflation is unmistakable.

At the same time inflation tends

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to give management a cost-plus mentality with regard to these settlements. If demand is rampant, the employer may shrug his shoulders at the otherwise exorbitant wage demands, yield to them and raise his prices accordingly — a scenario that works in the early stages of inflation. The scenario is accentuated by inflated expectations on the union's part. Not so many years ago a 4 or 5 per cent wage increase demand was workable. Now the teamsters or the plumbers or the coal miners or the phone workers demand 20 to 30 per cent and settle for 10 to 15 per cent. Thus in the third quarter of 1974, according to the Labor Department, the average wage increase for new major union contracts came to 11.3 per cent, up from 10 per cent in the second quarter. These increases add fuel to expectations and the inflationary process, in light of the historical postwar labor productivity improvement factor in the U.S. of around three per cent a year.

The process is exacerbated, I submit, by the use of cost-of-living escalator clauses. Some five million members of the labor force are covered by such clauses and this number is growing. Escalator clauses tend to be little engines of inflation since they push up wages and unit labor costs as the Consumer Price Index rises, and thereby tend to push prices and the CPI even higher, or create unemployment and pressure for monetary expansion. In other words, the escalator clauses act as a built-in wage-price spiral as well as a built-in worker disemploying agent.

Impact on International Operations

Decisions in the international area are greatly influenced by inflation. Corporate money managers, for example, have had to deal in recent years with "hot money" around the world. They have had to hedge against threatened currencies to protect their accumulated investment funds from erosion because of inflation or devaluation. Currencies have been not only devalued but upvalued, floated and repegged. The United States dollar itself has undergone two devaluations since December 1971, causing quite a turmoil in the currency portfolio of virtually every multinational corporation. Quite a few multinational corporations, including banks, have had to absorb significant losses from currency fluctuations. A prime example is the Franklin National Bank failure. Corporate money managers have therefore found it necessary to increase their hedging and swap arrangements to minimize these losses.

Again, the quadrupling of oil

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

prices via the OPEC cartel has led to some second thoughts in corporate board-rooms on industrial expansion projects here and abroad. Energy the world over has become not only very expensive, but has become tied up in political problems involving its basic availability. Indeed, there is even a growing possibility of further nationalization and expropriation, although this possibility is also brought about by general inflation and other factors.

The high cost of oil and almost every other basic commodity, including wheat, rice, sugar, zinc, tin, aluminum, steel, and the like, has worsened the balance of payments positions of virtually every major industrial country. The result is that these countries are now tending to discourage non-energy imports while pushing their exports harder to offset higher oil prices. Accordingly, corporate money managers will probably find export credit financing sweetened by government agencies in all the countries in which their companies do business, and new barriers to entry for the goods they wish to import into those countries. The effect of all this is to increase trade restrictions – to narrow world markets while ironically accelerating world competition.

Another result stemming from the OPEC model is the incentive for other developing nations to exploit the basic commodities with which they are blessed. The bauxite countries, notably Jamaica and Guyana, have already sharply raised prices to the aluminum companies. Rumblings of like action have been heard from the copper-producing, coffee-producing and tin-producing countries, among others.

So we begin to see how inflation more and more disrupts normal international economic relations for multinational corporations. The years since World War II of harmonious trade and international division of labor, so conducive to world peace, seem to be coming to an end. We are apparently entering an era of economic isolationism wrought by the internationalization of runaway inflation.

Impact of Price Controls on Management

One impact of inflation is political – a tendency for governments to react to inflation with wage and price controls. The irony of such government reaction is twofold: First, government itself is overwhelmingly responsible for the inflation it seeks to correct; and second, wage and price controls treat symptoms, not causes; they repress inflation, mask it, causing shortages and distortions while allowing inflationary forces to be-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

come even more virulent. The period of the "New Economic Policy" from August 15, 1971 to April 30, 1974 is a case in point.

Corporate managers in this period generally experienced a cost-price squeeze. In other words, they found their prices lagging behind their costs, chiefly labor and interest costs. In such a squeeze, many of them fled the regulated domestic market and shipped to unregulated markets abroad. This situation merely worsened the distortions in relative prices and the shortages endemic to the entire wage-price control era. Besides shortages, corporate managers had to contend with rampant demand, shipment delays, quality lapses, multiplying bureaucratic interferences and, ultimately, breakdown of the controls themselves. This breakdown in turn led to a rash of "catch-up" wage and price increases, which haunt us down to this very hour.

The controls led not only to a profit squeeze, but to a capital investment squeeze. Many basic materials industries, for example, knew that they had exhausted their capacity limits and that their backlogs could be measured not in months but in years. Yet they still could not set aside expansion funds by the retained earnings route, with earnings so squeezed; they could not raise equity funds with their stock prices so depressed; and they could not go to the bond market, with inflated interest rates reaching double-digit levels. The upshot was that supply became tighter and tighter across the country.

Inflation and Business Cycle

Of critical concern to management is the turn of the business cycle. Should the company expand operations or retrench? What lies ahead: boom or bust? Management is helpless in doing anything about the cycle; like death and taxes it is there, stark and inexorable. Or so it seems.

About all management can do is to try to forecast the turn and act accordingly. But forecasting, even by elaborate computerized econometric models, has proven woefully ineffective over recent years. It has shown itself to be anything but a science. It is an art, and a dubious art at that, as the record of business forecasts sadly evidences. As Walter W. Heller, chairman of the Council of Economic Advisers under Presidents Kennedy and Johnson, declared at the December 1973 meeting of the American Economic Association meeting in New York:

"Economists are distinctly in a period of re-examination. The energy crisis caught us with our parameters down. The food crisis

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

caught us, too. This was a year of infamy in inflation forecasting. There are many things we really just don't know."

But why is it that practically the entire business community is suddenly thrust into a huge crop of sharp profit setbacks or outright losses? Why is it that even blue-chip managements, noted for their track record of achieving profits and shunning losses, suddenly find their order backlog fading, the more so for capital goods managements?

I believe inflation is at the root of the business cycle, as Ludwig von Mises and 1974 Nobel Prize winner Friedrich von Hayek have long pointed out. Specifically, they have observed that the appearance of the business cycle roughly coincided with the origins of the fractional reserve banking system along with central banks. They have criticized credit expansion (not based upon actual savings) and the doctrine of easy money – ready availability at artificially low interest rates. They have also criticized central banks for aiding and abetting the process by pumping in additional bank reserves and becoming lenders of last resort. And they have criticized central banks for becoming giant printing presses through monetizing government deficits.

For management the process looks like this. Credit expansion puts pressure on resource prices but profits boom. Capacity is strained, so new capital expansion projects are launched. Cost-price squeezes develop. Inflation leaps ahead. Interest rates soar. The stock market falls. Consumers retreat. Businesses fail, especially as their debt structure becomes unserviceable. Expansion slows down, and the recession begins. The recession, *if* allowed to run its course and *if* inflation slows down, becomes part of the cure. If these two criteria are not met, the recession can turn into a depression.

* * *

In sum, the impact of inflation on management decisions is all-pervasive. There is no handy escape hatch. Losses for management – and for society! – are almost inevitable due to the deterioration of economic calculation, the increase of uncertainty, the evaporation of purchasing power, the damages of recession. The best remedy for inflation is to get at its taproot – deficit spending and excessive money creation. As good citizens, corporate managers might well remember the observation of Dante:

"The hottest places in hell are reserved for those who, in a period of moral crisis, maintain their neutrality."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

EARL W. MCMUNN

Another Layer of Protection?

YOU CAN'T trust any existing agency of government to protect the interests of the people of this country. The cure is to set up yet another agency. That one, you will be able to trust! This is the thinking of those who support the proposed Consumer Protection Act which would establish a new watchdog agency within the federal government.

Advocates of big government justify every proposal on the basis of what it allegedly will do for people. Overlooked is what it will do to them. The price tag is never displayed. This is the case with the Consumer Protection Act. The implication is that existing agencies of government are not protecting the interests of people. All this will change when a super agency is established to control existing agencies of government. That is the claim.

The point is that everyone in this country is a consumer. We are also taxpayers—at least most of us. All are affected by almost every act of government. The interests of "consumers" can't be sorted out into a neat little pile.

Isn't it a bit silly to believe that creating another agency and dubbing it the Consumer Protection Agency can really protect everyone? We have agencies, bureaus, courts and laws. There are the U.S. Department of Agriculture, The Interstate Commerce Commission, The Federal Trade Commission, The Public Utilities Commission. There are dozens of others. All are to protect someone against something.

One of the greatest threats to the people of this country is the threat of big government. Every decision you turn over to someone

Reprinted from *The Ohio Farmer*, April 19, 1975. Copyright, The Harvest Publishing Company.

Mr. McMunn, for many years editor of *The Ohio Farmer*, recently became full-time Director of Public Affairs for the Cleveland-based Harvest Publishing Company.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

in government is a decision you no longer can make for yourself. It is impossible to have freedom and stifling government bureaucracy at the same time. Choose one and you lose the other.

No one can ever estimate the cost of a Consumer Protection Agency. Some have estimated it at $60 million for the first three years. But the real cost is not what it might add to the federal budget and what you would pay in extra taxes. The real cost is in ways it would stifle the economy and throttle actions of existing agencies of government.

We already have abundant waste caused by one agency intervening in the decisions of another. It is part of the "red tape" which adds to the cost of every government project. Paper work, permits, inspections, and approvals required by government agencies add to the cost of every item you buy.

Imagine what happens to government and industry costs when a new super agency starts to tell people what they can and cannot do! This is a cost people will be forced to pay. Also, what happens to your ability to get a decision you can depend upon in making plans for the future.

Too Much Regulation

There is abundant evidence that a major reason for our economic troubles is too much regulation, not too little. We have already piled one level of regulation on top of another.

We are slow to learn from experience. Companies flourish and grow large when they meet the needs of consumers. They fail when their products are not accepted by consumers. There is nothing new about this. Why is it you don't see many Edsel, DeSoto or Essex cars on the roads today? Why do you see Fords, Chevrolets and Plymouths? People made decisions. And they made those decisions without the aid of a government agency.

Demand for a protection agency stems from the belief that consumers aren't smart enough to pick and choose. That an all-wise government agent should look out for them. But, there is little to indicate that giving a person a government title confers with it wisdom not possessed by other average persons. Look at our present maze of bureaucratic decisions as you ponder this one!

Substituting government regulation for free choice in the market place always leads to the same sad end. Incentive is stifled. Production is discouraged and the people suffer. Political liberty and economic dictatorship just don't go together.

The truth is that those who are pushing for more government are

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

disciples of socialism. They may talk about protecting free enterprise but that is not what they are trying to accomplish.

Protection is a funny business. Almost every protectionist wants to protect someone else against his folly. Even the underworld makes a big thing of the protection business. Big-city hoodlums offer all kinds of "protection" with little concern for the wishes of the protectee.

Impractical demands upon auto makers added to the cost of cars and made them less acceptable to many buyers. This is part of the reason for the selling slump which has put many employees out of work and contributed to the economic depression. All this was to protect people.

You don't need to search far to find examples of what consumer protectors have already done for you. A look at a recent electric bill can provide one example. Only a few years ago these same consumer protectors were demanding an end to many forms of pollution. They showed no concern for the cost. Their slogan was: "Make the polluters pay."

Our air and water pollution control laws were a response to public demand. They were strong on demands with little regard for practicality and cost. The result is just beginning to show.

A major reason for soaring electric bills is the cost of pollution control devices, strip mine reclamation legislation, environmental impact studies and other types of protection. As an example, just two scrubbers to cut down air pollution from one generating plant owned by the Ohio Edison Company will cost more than the entire Ohio Turnpike. They may be environmentally desirable, but contribute nothing to the supply of electric energy. Other electric utilities are making similar expenditures. The cost must be paid in electric bills.

The Unseen Aspects of Intervention

A weakness of most consumer pressure groups is that they are organized for a particular purpose. They "demand" clean air, clean water, lower prices, better service, or more information. Many of their demands are in conflict with each other. There is always a price tag. You can't do just one thing. Any change in the economy is bound to affect something else.

But, the self-proclaimed public protectors flit from one demand to another, blithely ignoring the costs they are heaping upon the consumers they claim to be protecting.

During recent months electric utilities have been forced to seek a succession of rate increases.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

These were necessary because of soaring production costs. Utilities must make a profit if they are to have the billions which are needed to install pollution control devices, and build new plants to supply power needs of the future.

Who are the most vocal foes of the rate increases? Often they are the same people who "demanded" the environmental improvements which made the rate increases necessary. Another of their demands was that utilities should not be permitted to advertise. Their argument was that advertising is a needless expense.

The truth is that the attempt to ban advertising was aimed at keeping the utilities from telling their story to the public. The consumer protection groups, of course, would tolerate no such tampering with their right to communicate. That would be infringement upon the right of free speech!

In the case of the utilities, banning of all advertising could save consumers only an insignificant amount of money. The delays in rulings and other costs they created have added greatly to the cost of electric power.

Examine the Motives

We need to look closely at the motives back of every consumer protection group. Many are sincere and well-intentioned. In some cases their intentions are better than their understanding of economics. Too many are dedicated to a single aim with no concern for how others may be affected. Then there are still others who are using consumer protection as a smoke screen to hide their real purpose. This is destruction of the American system of private enterprise.

In any case, there is little to suggest that adding another costly federal agency will suddenly accomplish what the present maze of government has failed to do. Elected officials are responsible to the people. Their stewardship is reviewed at regular intervals. Those who fail to serve the people are relieved of their responsibilities. This is as it should be.

Every demand known to man can be lodged with some agency of government. This doesn't mean that all should be granted. But a super agency with power over other existing agencies could create staggering costs, endless confusion and less freedom to make individual choices. All this in the name of consumer protection!

If we need a super agency to protect us from the neglect of present agencies, then it is clear we will soon need yet another agency. This is an agency to ride herd on the Consumer Protection Agency. Otherwise, who is to protect us from our protectors?

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Equal Opportunity —versus— Individual Opportunity

ANNE WORTHAM

TWO HUNDRED YEARS have passed since Thomas Jefferson wrote, in behalf of his countrymen, that all men are created equal. The debate over the meaning of equality still persists as vigorously as ever. "What is at stake today is the redefinition of equality," says sociologist Daniel Bell. "A principle which was the weapon for changing a vast social system, the principle of equal opportunity, is now seen as leading to a new hierarchy, and the current demand is that the 'just precedence' of society . . . requires the reduction of all inequality, or the creation of *equality of result* – in income, status, and power – for all men in society. This is the central value problem of the postindustrial society."

Equality is not a concept concocted for their convenience by enlightened American revolutionaries to rationalize their demands for independence from the encroachments of colonial rule. It does not refer to the biological classifications of men, their socio-economic status, nor to their attributes of character and personality. Yet it is to such things that so much of the continuing debate over equality refers. And when various pressure groups demand their right to equal opportunity, it is not political equality (as the concept properly means) that they desire but equality of condition. Their intent on divesting equality of its authentic meaning is as virulent today as it was ten years ago when President Lyndon B. Johnson told a graduating class: "We seek not just legal equity . . . not just equality as a right and a theory but equality as a fact and equality as a result."

The movement toward equality of condition reached its height during the nineteen sixties and has been gathering a steady stream of advocates who petition for the legal recognition and political sanction of everything from "rights

---

Anne Wortham is a Research Librarian in the news syndication industries. One of her earlier articles from THE FREEMAN is included in *The Libertarian Alternative: Essays In Social and Political Philosophy*. This article is excerpted from her forthcoming book profiling race conscious prototypes among American Negroes.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of the unborn" to "rights of the elderly." These egalitarians say that their motive is justice; that they speak in behalf of the decency and betterment of mankind. But their actions call for the rule of force, power, pull and pressure among men.

Equality and Rights

No one touts the phrase "all men are created equal" more than the egalitarian and no one considers its true meaning less than he. In the human context, equality refers to the fundamental identity of man which is equally applicable to all individuals: *A rational animal*—i.e., *an animal possessing the faculty of reason.* It is this self-evident truth of man's nature that gives rise to human rights—those conditions of man's nature that are required for his proper survival and which define and sanction his freedom of action in a social context. And it is man's rights that give meaning to the concept of equality. Equality is an *ethical-political* concept, meaning that by their nature all men possess equal and inalienable rights to life, liberty and property. It measures man's political relationship to other men and to political authority, meaning: (1) that all men should have equal status before the law and (2) that each person should enjoy equal conditions of civil freedom, asserted by objective law and based on human rights, in order to achieve whatever goals his own intelligence and industry will allow.

Man's fundamental right – the one on which all others depend – is the right to his own life. The phrase, "all men are created equal," means that all men are born with the right to life and the rights inherent in the ownership of life. But the process of living is not something *done* to man; rather it is continuous action that he must generate and sustain. Similarly, the *actualization* of human rights must be performed by the individual according to standards appropriate to his survival. He must act to achieve and maintain the values of life to which rights pertain and it is by that action that he asserts his independence of other men. This is the point made by Thomas Jefferson in his original (but later edited) declaration that all men are created equal *and* independent. Stressing the independence of man underscores the fact that human rights begin and end with the individual; that they are not permissions, privileges, or conditions granted to men by social institutions, by the law, or by one's neighbors; that institutions should only protect and preserve them, and one's neighbors should only respect them.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

We cannot speak of equal rights without also considering the independent nature of man. Any attempt to do so is an attempt to bypass the objective evidence of man's separateness and in the end to render the role of reason in his existence as null and void.

Rights and Opportunities

Few stop to question the egalitarian standards that dictate the meaning they attach to the concept of equality, and in every occasion of their misuse of it the definition of man's rights is further evaded. The most prevalent misuse of equality occurs in the use of the concept of *equal opportunity*. Those who would subject man to the rule of faith refer to "opportunities" as though they were inexplicable miracles occurring in reality by the grace of a supernatural power. Those who see man as the servant of society's "will" refer to "opportunities" as though they were arbitrary privileges dispensed by a feudal lord to his vassals.

When some egalitarians advocate equal opportunity, they mean that men of excellence should be reduced to the lowest common denominator of the least among them. Others advocate it meaning that the least among men should be raised by efforts other than their own to the level of men of excellence. Today we witness an alliance of the two: on the one hand, there is the demand that all men be given the opportunities and rewards of excellence whether or not they value excellence and have the will and ability to attain it. On the other hand, we are surrounded by those who proclaim that the best life for man is that he rise no higher than the lowest among him — that to do otherwise is necessarily to exploit his neighbor's weakness and misfortune. The result of this alliance exists in the person who would bypass the cause and identity of excellence and declare that the worst performance be deemed the excellent. Mediocrity is his vested interest and the destruction of merit is his goal. Such are the distortions of the concept of opportunities, made possible by the evasion of man's nature and the rights it entails.

What does the concept really mean and how is it related to the concept of equal rights?

Just as the principle of individual rights gives meaning to the concept of equality, so does it give meaning to the concept of "opportunity." As rights are defined as "conditions of existence required by man's nature for his proper survival," opportunities are defined as *situations, conditions, occasions or a combination of circumstances of man's social existence that are favorable for the attainment of a*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

goal. There is an attempt by some egalitarians to equate opportunities with rights; but while rights give meaning to opportunities, they are not interchangeable concepts. An individual has no more *right* to opportunities than he has to happiness; but as in the case of happiness and all rewards of successful living, he does have the right to *pursue* opportunities. Man's rights are his by moral principle and by his nature. An individual's opportunities are his by moral principle and by his choice; they are the resulting expressions of man's rights. Man's rights are self-evident, but his opportunities are not. They do not spring forth like the goddess Athena from the head of Zeus, fully formed and perfected. As with everything else man needs, opportunities must be discovered by his mind and brought into existence by his effort.

Just as all living organisms must generate the course of action that is biologically appropriate for their survival, man – the being of conceptual consciousness – must initiate the course of action necessary to create and choose opportunities – the intellectual and social conditions appropriate to his survival. The fundamental condition that man requires for his survival is the right to freedom – intellectual and political freedom. The right to intellectual freedom is the right to make the voluntary, uncoerced choice *to think or not to think.* The corollary of man's right to intellectual freedom is his right to political freedom – the right to make the voluntary, uncoerced choice *to act or not to act.* Just as man's survival requires that his mind be free of the interference of ignorance, fear, guilt and irresponsibility, so does it require that his social existence be free of the forceful interference of others. Political freedom affords man the opportunity to attain such social goals as peaceful co-existence, profitable exchange and accumulation of knowledge and material goods, security and safety of person and property.

Opportunities and Freedom

Opportunities are not the cause of individual freedom, but a *consequence* of such freedom. All the opportunities in the world can be of no use to a man who is not intellectually free to use them to his advantage. And a man who is not intellectually independent cannot create opportunities, or determine with any confidence which conditions and circumstances in his environment are potential opportunities (i.e., appropriate to achieving his goals), or potential adversities (i.e., inimical to achieving his goals).

Individuals differ in the methods

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and standards by which they identify, evaluate and choose opportunities. The opportunities a man creates and chooses depend on the extent of his knowledge, context, interests and values. One's knowledge of the existence of opportunities does not guarantee that he can or will take advantages of them. A tribal priest may learn that his village sits atop a vast oil field. But if he does not discover the scientific means of extracting the oil and then choose the proper economic means of converting oil into a marketable commodity of exchange, the bituminous mixture of hydrocarbons will remain where it is and be of no practical meaning or use to him at all. He may encounter men who are willing to apply their knowledge to its extraction and use, but refuses their assistance because he believes the oil is the drink of evil spirits that habitate the earth below. In such case, it is not the fault of those who realize the potential opportunities inherent in the extraction and marketing of the oil that the tribal priest continues to live in squalid conditions. The choice is his and he alone is responsible for the consequences of his choice.

In this instance, it is not even the man's lack of knowledge that hinders him from choosing to achieve the opportunities that the production of oil would afford him. It is his lack of intellectual freedom – his enslavement to the idea that the oil is not his to use but belongs to evil beings underground – that holds him at a level of primitive subsistence rather than the more beneficial level that industrial productivity provides.

It is not easy to live and produce in a society based on freedom of the individual and where success is measured by individual initiative. The issue in America is not so much whether men have equal political freedom to create and choose opportunities, but whether in an atmosphere of social freedom, they will choose the intellectual independence necessary to take advantage of that freedom. The responsibility to maintain the intellectual sovereignty one needs to achieve opportunities is always his own. A man whose mind is locked by his belief in underground spirits, by psychedelic drugs or by public opinion polls is automatically locked out of the opportunities of political freedom.

Opportunities and the Law

Because all men are equal in their *possession* of a rational faculty, they need moral laws that treat them as equals. But there is a further reason why men must be equal before the law: to protect each individual's *execution* of his capacity to reason. If all men ex-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ecuted their reason in the same way and to the same degree, they would be robots instead of men and there would be no need for the social recognition of reason or rights. It is the *in*equality of men – the *un*identical conditions of human existence that individuals create for themselves – that objective law must give identical protection and preservation.

Social reformers tell us that unless men have the same social opportunities, they cannot know individual freedom. All the political freedom in the world can be of no use to a man who is hungry and indigent, they say. But it is the man who is hungry and indigent who needs intellectual and political freedom the most. He needs intellectual freedom in order to discover the means of changing his situation; he needs political freedom in order that his activity will be protected from the interference of others. A hungry man in a slave state is limited to accepting whatever someone else does to eliminate his hunger (and that could very well include sentencing him to death as undernourished and therefore useless to his masters); but the hungry man in a free state is limited solely by his own choice. He may seek food by his own means; he may rely on the charity of others to maintain his life; or – he may enlist the power of government to create special conditions that guarantee his livelihood at the expense of others.

Egalitarians say that if men are equal in their identity as Man, they should live equally; that if individuals have equal status before the law, then it is the purpose of the law to provide the means by which they can achieve equal status in fact. The law, they say, cannot operate to give equal justice to men whose knowledge, values and productivity are unequal. The law cannot address itself objectively to the prince and the pauper, the manager and the laborer, or the educated and the uneducated. Therefore, they conclude, to insure equal treatment from the law, the circumstances of men must be made equal. Men must be all princes or paupers – all managers or laborers – all educated or all uneducated.

But the state of collective equality in which social evangelists would have men exist clashes with reality and contradicts the independent nature of man. There can be no justice without political equality; but social equality is unfair – a breach of justice and a threat to political equality. Social equality requires that men lose respect for their own freedom and individuality; it requires that they become indifferent to the manifestations of individuality on the part

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of others. It requires that men be equals, not in freedom but in slavery.

The law – *objective* law – addresses itself to man's mind, not to his social position, his pocketbook, his stomach, or his academic credentials. The idea that government must provide or create opportunities for men is a contradiction in terms which ignores the proper relationship of political authority to individuals and evades the role of man's free will in the creation and pursuit of opportunities. Government's function is not to provide opportunities but to protect those which the individual creates for himself. Government cannot provide opportunities without also violating man's rights. And in a society where man's rights are not protected and his nature as a rational being is not respected the issue of opportunities is moot.

Privileges Versus Opportunities

Opportunities are *favorable* conditions of human existence but they are not unlimited. The opportunities of one man can extend no further than where the rights of another man begin. When one man trespasses another's property to catch fish in his lake, what he perceives as an opportunity to catch a meal is not an opportunity to which he is entitled, since the lake and the fish in it are the property of someone else. He has the right to create the means for feeding himself, but he does not have the right to a court order forcing the owner of the lake to give up his fish.

When men attempt to bypass reality by invoking the force of government to create opportunities for themselves at the expense of the rights of other men, the conditions they create are not opportunities as such, but political privileges: *special advantages peculiar to themselves that exempt them from the usual course of law.* They wish to be excluded from the conditional nature of opportunities – to secure a guarantee against effort – to render effects immune to their causes – to secure protection against the facts of reality.

A widely disputed speech regarding the issue of equal opportunities was made by the ex-slave and educator, Booker T. Washington, in 1895 before an audience of Negro and white southerners at the Atlanta Exposition. In that address he stated: "the wisest among my race understand that the agitation of questions of social equality is the extremest folly, and that progress in the enjoyment of all privileges that will come to us must be the result of severe and constant struggle rather than of artificial forcing." By "privileges" Washington meant *socio-economic* privileges – those rewards of op-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

portunity that are the achievements of individuals and not the province of governmental policy and administration. As opposed to political privileges, socio-economic privileges are autonomous advantages that are achieved voluntarily and meritoriously within the confines of the law. Not all socio-economic privileges are honestly or justly earned but they are, by definition, achieved by lawful means. Political privileges, on the other hand, are achieved not within the law but by distortion of the law; they are not earned but exist as the spoils of legalized plunder.

The Legitimacy of Equal Opportunity

Equal opportunity does have a legitimate meaning: *equal political freedom to create and choose conditions and circumstances favorable to man's existence.* The concept properly refers to the political freedom to act and express oneself as an *independent* individual. It means that as each man has the freedom to think, so must each man have equal freedom from the interference of those who choose not to think; that if man is to express his thinking, equal freedom from the interference of others is necessary in order that such expression may be manifest; that as each man must survive as an end in himself – as the owner of his life and person – so must each man have equal freedom to control his environment to produce what is needed for his survival; that the moral conditions of each man's existence (his rights) must be given equal recognition and legal protection by objective law.

It is here that equal opportunity among men ends. Anything less than this must be identified as a condition of *slavery*; anything more than this must be identified as a condition of *political privilege.*

The principle of equal opportunity operates as a restriction on governmental power, commanding government to leave each man to pursue the values of his life as he sees fit. It is not the role of government to determine what values a man should pursue – nor to hire think-tank intellectuals to declare what values should guide a man's life. The government is as much prohibited from interfering with a person's success as with his failures. It is just as much an encroachment on personal freedom when the government acts to circumvent private failure as when it acts to promote personal success or to impede the success of one's competitors.

It is not the business of government to guarantee success or safety – only to uphold the right of each person to act upon the opportunities he perceives.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

PROFIT and LOSS

BRIAN SUMMERS

WHEN there is no understanding, emotions carry the day. We see this in mobs. We see this in war. And, sadly enough, if we will only stop to look, we will see this in ourselves and in our loved ones.

Some examples? There is no better place to look than economics, for while most people have strong feelings about economic issues, they lack an understanding of basic principles.

Many economic issues concern profit and loss. How do you feel about business profits and losses? Are profits bad? Why? And if profits are bad, are losses good? Why?

Most people have strong *feelings* about these questions. Unfortunately, they lack an *understanding* of the formation and function of profits and losses in a free market economy.

To gain an understanding, let us see how profits and losses come into being. Two neighbors—Mr. Able and Mr. Baker – start their own businesses. They borrow money at market interest rates, rent buildings at market rents, buy raw materials at market prices, and hire workers at market wages. A year later they sell their products – Able has made widgets while Baker has made wadgets – at market prices. When they examine their books, Able finds he has made a profit, while Baker finds he has sustained a loss.

What happened? Why didn't Baker sell at a price that would have given him a profit too?

Well, he couldn't. For if Baker had tried to sell at a price above the market price, his shelves would have remained full of unsold wadgets. He would have had more wadgets than buyers.

To see this, we need to understand free market pricing. In an unhampered market, the businessman adjusts his asking price so as to just sell all his products. If he tries to charge more than this optimum price, he loses so many cus-

Mr. Summers is a member of the staff of The Foundation for Economic Education.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tomers to competitors that he can't sell all his goods. If he charges less than this optimum price, the demand for his product exceeds his supply. With more would-be buyers than he can satisfy, he must resort to some form of rationing. Perhaps he will sell to just his friends.

Or perhaps he will raise his asking price to the market price. At the market price he can sell as many items as he wants, and customers can buy as many items as they want. At the free market price, there are no shortages and no surpluses.

The intelligent businessman is well aware of this. He knows he can't make profits by simply raising his prices because he would lose his customers to the guy down the street. There is only one thing he can do – cut costs of production. Thus, the businessman tries to use his men and materials in the most efficient manner possible. And, because he must pay market wages, prices, and interest rates, he tries to minimize the number of men he employs, the amount of capital he uses, and the quantity of natural resources he consumes in producing his goods and services. In other words, he tries to practice conservation.

Most people are all for conserving natural resources. They understand that the natural resources Able doesn't consume will be available for use by Baker or some other businessman. Unfortunately, they don't understand that the same principle applies to labor and capital. The less labor and capital Able employs to produce his widgets, the more labor and capital is available to produce something else.

An inefficient producer – one losing money – uses large quantities of labor, capital, and raw materials to produce a given number of widgets. An efficient producer – one earning profits – uses less labor and/or capital and/or raw materials to produce the same number of widgets. The labor and capital that isn't tied up in the production of widgets is free to help provide consumers with something else.

People say: "There is another possibility – Able may be making profits by paying his workers less than Baker."

In an unhampered market, workers who feel they are being exploited are free to seek other employers. Able needs workers; Baker needs workers; all businessmen need workers. In a free market there is no lack of employers because consumers are never satisfied. They always want more, better, and cheaper goods and services. In order to satisfy customer de-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mands, businessmen need labor. They compete among themselves for workers' services. An employer who tries to pay his workers less than market wages soon finds them going to other employers or pooling their resources to start their own businesses.

This raises an interesting point. Labor unions have accumulated hundreds of millions of dollars through compulsory dues. Their strike funds are large enough to sustain their members through months of idleness. Their pension funds are even bigger. If they truly feel their members are being exploited, why don't they buy controlling interests in established corporations or start their own?

Others say: "Baker is losing money, so he can't raise any capital. He may be inefficient, but his business is vital to the community. If his company fails, his workers will be thrown on the streets. These unemployed workers will have less money to spend, and all the local merchants will suffer. The government should keep Baker in business by making up his losses with a subsidy."

The government can only give to someone what it has taken from someone else. If the government gives Baker a subsidy, the taxpayers will lose precisely as much as Baker gains. Furthermore, the merchants who would have been patronized by the taxpayers will lose as much business as the merchants in Baker's community gain. The wadget industry will be larger than it would have been in a free market, but other industries will be smaller. There will be no net gain.

In fact, there will be a net loss. Baker lost money because his costs of production were too high. He was inefficient. He used too much labor and/or capital and/or raw materials in producing his wadgets. If subsidized, he will have no reason to change his inefficient ways. If he isn't subsidized, he will have to become more efficient or go out of business. If he does go out of business, his workers, capital, and raw materials will be released for use by other, more efficient businessmen.

Thus, subsidizing inefficient businessmen results in less production than would be the case without a subsidy. The standard of living is lowered. If at the turn of the century we had subsidized the horse-and-buggy trade, we would have slowed the growth of the automobile industry and all the jobs dependent on it.

While some people call for subsidies, others attack profits. Some would like the government to coerce Able into telling his workers: "Gentlemen, I have wonderful

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

news. When I sold my widgets today, the market price was high. I am going to pay you all my profits. You will each receive a check forthwith."

Would these same people want Baker to tell his workers: "Gentlemen, I have terrible news. When I sold my wadgets today, the market price was low. You are going to pay me all my losses. You will each send me a check forthwith."

Of course, no one suggests the latter. Nor does anyone propose that Able pay bonuses to his landlord, creditors, or suppliers of raw materials, even though they were just as important to his business as his employees. However, we do hear demands that Able's employees receive bonuses – even though Baker's employees worked just as hard.

Before deciding *who* should share Able's profits, let's first decide if he should be forced to share them with *anyone*. This calls for a closer look at his profits and the role they play in a market economy.

Suppose Able's sales exceed his costs of production by $30,000. That's $30,000 of profits, right? Not necessarily. If Able has $100,000 of his own capital invested in the business, and the market rate of interest is 8 per cent, his business is costing him, in terms of lost interest, $8,000. If he is capable of making $20,000 a year working for someone else, his business is costing him, in terms of lost salary, $20,000. Able is making $30,000 by passing up the opportunity of making $28,000. His net profit is $2,000. And if government interventions should reduce his income to less than $28,000, he would be better off closing his business and firing his workers.

Of course, this analysis doesn't take taxes into account. In normal times, approximately 50 per cent of corporate profits are seized by the government. In inflationary times, corporate profits taxes are likely to be even more confiscatory, for inflation exaggerates profits and turns many actual losses into apparent "profits."

How does this happen? Suppose Able buys an item for $8 and sells it a year later for $10. To most people – tax collectors included – that's a clear $2 profit. But is it? Suppose that when Able tries to replace the item in inventory, inflation has pushed the price up to $10. Then Able is no better off than when he started.

In fact, he is worse off. The tax collector has seized half of his $2 "profit," so he has only $9 left to buy a $10 item. He is losing money and paying corporate profits taxes at the same time.

There is a second way that inflation creates phantom "profits."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Suppose Able buys a machine for $100,000. The machine has an expected life of 10 years, so every year he writes off $10,000 on his tax return. Thus, after 10 years he has $100,000 set aside to buy a new machine. The only trouble is that in 10 years the price of the machine has risen to, say, $200,000. If Able can't come up with an extra $100,000, his "profitable" business will have to close.

After all the ravages of inflation and taxation, Able may still have some profits left for himself. What will he do with them? If he wants his business to grow – if he wants more profits – he will reinvest them in the business.

Able will use his profits, and the capital his profits attract, to hire more workers. Perhaps he will take on some of the workers laid off by Baker. He also will purchase better – more efficient – tools of production. With these new workers and better tools his output of widgets will grow and grow.

There's the rub. Able will produce more widgets and his profits will entice his competitors to produce more widgets. Labor, capital, and natural resources will flow away from the production of wadgets and into the production of widgets. As the supply of widgets grows, the market price will tend to fall. Consumers will get more widgets at lower prices. They will all be better off. Able, however, will find the falling market price reducing his profits. If he is to stay in business, he will have to reduce his costs of production further. He will have to become even more efficient.

People say: "This is all hypothetical. I am interested in the real world."

Very well. There is nothing more real than the car in your garage. If the pioneers of the automobile industry had paid taxes at contemporary rates, those that still managed to make profits would have had much less money, compounded annually, to reinvest in their businesses. With a greatly diminished return on capital, they would have had a far more difficult time attracting outside investments through the sale of stocks and bonds. The automobile industry would still be in its juvenile stages, and you would probably know a lot more about horses.

This brief survey of issues surrounding profit and loss is, of course, by no means complete. Moreover, these are just a few of the many economic issues facing people throughout the world. However, I have tried to indicate how these issues can be resolved with understanding. For if understanding does not guide our actions, emotions surely will.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Why Do "They" Turn to Socialism?

EDMUND A. OPITZ

EVERY PERSON of good will longs for peace on earth; he strives for justice and fair play in human affairs. Proclaiming such goals as these does not distinguish the Socialist from other men; rather, it is his means for attaining these ends that marks him out. The operational imperatives of a Socialist order demand a coercive arrangement of society, within which the lives of the many are planned and managed by the few who wield political power. Why do many otherwise idealistic and intelligent people find this scheme appealing? This is a recurring question. Everything about freedom seems so natural and so right to those who understand it that they can't help but wonder why anyone rejects it in favor of Socialism or Communism. But millions do.

The twentieth century faces Left, and nation after nation succumbs to a "progressive" ideology. Marxism, of the Moscow or the Peking variety, is the official faith of hundreds of millions of people the world over. Countless others may reject Marxism, but they embrace a "liberal" ideology; they advocate national planning, state regulation of key industries, public works, welfarism. Add up these millions and you ask: Who else is there? Well, there are a few people in today's world who are firmly grounded in the tradition of eighteenth century Whiggism, or Classical Liberalism; who acknowledge the political wisdom of *The Federalist;* who embrace the free market economic theories of the Manchester and Austrian Schools. There are able scholars in this camp whose writings demolish collectivist theory and marshall solid, carefully reasoned moral and intellectual arguments on behalf of

The Reverend Mr. Opitz is a member of the staff of the Foundation for Economic Education, a seminar lecturer, and author of the book, *Religion and Capitalism: Allies Not Enemies.*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the free economy/free society position.

The soundness of this freedom philosophy is attested even by its opponents, that is to say, by the triviality of Left-wing analysis and criticism of it. The Left rarely attempts to make the case against the philosophy of the free society by meeting its arguments on their own level. We may be sure that if the Left had such a case they'd use it. The Left opposes the free society position, of course, but seldom by argument, that is, intellectually. Opponents of the free economy position have several typical ways of dealing with it. The first tactic is to ignore it; don't discuss; pretend it isn't there. The second line of defense is: If you can't ignore it, misstate the position; then knock the straw man down. Third, call names. Useful epithets are "reactionary," "eighteenth century idea," "capitalist," "outdated." Fourth, allege hardheartedness toward the plight of "the poor." This last is almost hilarious.

To the extent that the free economy has been allowed to function in a given nation, in like measure has the free economy elevated more poor people further out of poverty in less time than any other system! What amalgam of ignorance, stupidity and malice does it take to bring this charge against the free economy, that it neglects "the poor"? The record shows that the government handout system, by contrast, not only fails to help "the poor," it keeps them that way – and demeans them to boot!

Attacks Rooted in Envy

The system of liberty has solid intellectual and moral foundations; why, then, do not more people find the case persuasive? Why do so many people gravitate toward freedom's opposite, jostling one another as they crowd the road to serfdom? Is there some human trait which, released from moral controls, is readily enlisted under the banners of Socialism? The answer is Yes; there is such a trait – envy. Envy, and its twin, covetousness, are unlovely facets of human nature, and only moral energy keeps them bottled up. But when envy and covetousness are uncorked they work against freedom and for Socialism.

Ask the man in the street what he understands by Socialism, and he'll tell you that it's a scheme for dividing up the wealth; "the equal division of unequal earnings," as someone put it; soaking the rich to pay "the poor." Spellbinders of the Left play upon the feelings of envy and covetousness with practiced skill, setting person against person, class against class. These ugly traits of human nature have

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

caused trouble since time immemorial. "Thou shalt not covet," is one of the Ten Commandments; envy and covetousness are two of the Seven Deadly Sins. Our forebears, aware of the destructive potential of these traits, endeavored to neutralize them by making their control a religious duty.

But if the egalitarian drive is to pick up momentum, it needs the fuel only envy and covetousness can supply. Socialism uses envy, and exploits the new morality whose energumens tell people that they *should* covet their neighbor's goods. Roll your own Ten Commandments, and remember that there are easier ways of getting your hands on a buck than working for it! The society is first divided into the Haves and the Have-nots. Then the Have-nots must be convinced that their lack of the amenities is somehow the fault of the Haves; that the man who earns twenty-five thousand dollars a year is somehow to blame for the fact that another man earns only seventy-five hundred.

With a part of ourselves we'd like to believe this, so it is not surprising that a lot of people are reluctant to utter a *mea culpa* in the case of their own failures and shortcomings; they find it gratifying to learn that someone who seems more successful than they, is the reason they are not doing better. Such sentiments as these are music to our ears, but they cannot survive even a limited exposure to economic reasoning.

Advantages of Trade

We can learn from economics, if we will, that the free economy is not like a zero sum game where one man's gain inevitably means another man's loss. In a poker game, as one man's stack of chips grows higher and higher there is a corresponding shrinkage of the other players' stacks. In the market economy, by contrast, there is a progressive increase in the number of chips (so to speak) available to every player; and every man earns precisely what consumers think his services are worth. Now, in his secret thoughts, Everyman knows he is worth a great deal more than consumers think he's worth! It is only experience and self-discipline that allows the reality sense in most people to be brought into play and prevail in the end. But economic understanding, and reasonable considerations such as these, must be squelched in order to inflame more acutely the envy of the Have-nots.

But envy is only the first half of the story; the inflamed envy of the Have-nots must be orchestrated into harmony with the aroused guilt of the Haves. Now, a person whose wealth has been obtained by force

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and fraud should feel guilty; if there is no guilt feeling associated with advantages gained at another's expense there is evidence of a moral blind spot. Parenthetically, there are scores of millions in this category – gaining advantages at someone else's expense – every person on the welfare state's subsidy list! And paradoxically, most of these would be thought of as being in the Have-not category, and would so place themselves, and they would attach great virtue to the particular means by which they obtain an income!

Consumers Make the Awards

Every one of us in a free society is rewarded by his peers according to the value willing buyers attach to the goods and services he offers for exchange. This market place assessment is made by consumers who are ignorant, venal, biased, stupid; in short, by people very much like you and me! This does seem to be a clumsy way of deciding how much or how little of this world's goods shall be put at this or that man's disposal. Isn't there an alternative? Yes, there's an alternative, and it occurred to people more than two millenia ago. We'll invite the wise and the good to come down from Olympus to sit as a council among men, and we'll appear before them one by one, to be judged on personal merit and rewarded accordingly. Then we'll be assured that those who make a million really deserve it, and those who are paupers belong at that level; and we'll all be contented and happy. What lunacy! The genuinely wise and good would not accept such a role, and I quote the words of the highest authority declining it: "Who made me a judge over you?" Anyone who applied for such a role would cast grave doubt on his wisdom and goodness by the mere fact of applying!

The market place decision that this man shall earn twenty-five thousand, this one ten, and so on, is not, of course, marked by supernal wisdom; no one claims this. But it is infinitely better than Socialism's alternative, which is to recast consumers into voters, who will elect a body of politicians, who will appoint bureaucrats to divvy up the wealth by governmental legerdemain. This mad scheme backs away from the imperfect and crashes into the impossible! There are no perfect arrangements in human affairs, but the fairest distribution of material rewards attainable by imperfect men is to let a man's customers decide how much he should earn; this method will distribute economic goods unequally, but nevertheless equitably.

Parenthetically, it should be understood that the market does not

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

measure the true worth of a man or a woman. If it did, we would have to rate all who make a lot of money as superior beings – rock music stars, producers of porno films, publishers of dirty books, television commentators, authors of best sellers – and they're not superior. To the contrary! But such people constitute only a tiny sector of the free economy, and they are a very small price to pay for the blessings of liberty we enjoy.

A Guilt Complex

In a free society, those who earn more than the national average are entitled to enjoy their possessions, for they've gained them in a system of voluntary exchange; the well-being they enjoy is matched by the well-being they have bestowed upon other people! There are no valid reasons for anyone to be plagued by feelings of guilt on this score. There is genuine reciprocity in the free society, but its opponents are blind to the market's built-in mutuality. The Left, therefore, will make a determined effort to instill a guilty conscience in everyone who lives above the poverty level. They use Karl Marx's exploitation theory which alleges that the man who works for wages produces, over and above his wage, a "surplus value" which is garnisheed by his employer. To be employed is to be exploited, and the whole capitalist class should feel guilty for denying the working class its due!

This naive notion was demolished by Böhm-Bawerk even while Marx lived, and it is not now defended even by Communist theoreticians. But the "surplus value" idea accords with feelings of envy and guilt, so it is still useful as propaganda.

Given a century and more of Marxist propaganda and it is not surprising that there are a lot of guilt-ridden millionaires and sons of millionaires, as well as many captains of industry and top executives whose hearts bleed for "the poor." Envious Have-nots and guilty Haves: fertile breeding ground for Socialistic propaganda!

It is not only among individuals that wealth differentials are exploited; there are Have and Have-not nations. The Have-not nations are those to whom Americans have given upwards of two hundred billions of dollars worth of goods since the end of World War II. But despite this incredible bounty (for which the nations of the world rise up and call us blessed!) we still have too much, in the eyes of our critics. The words vary but the music is always the same: Americans who represent only 7 per cent of the world's population consume 20 per

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

cent of the world's food, drive 75 per cent of the world's automobiles, have 75 per cent of the world's television sets, and so on and on and on.

Now, I'm an amateur critic of the quality of life lived in America, and for those who insist on having my opinion I'd say that Americans *do* eat too much, and they stuff themselves with food of the wrong kind. It would be good for them to leave the car in the garage occasionally, and walk, or ride a bicycle. Furthermore, no mixture of ease, comfort, speed and gadgetry will add up to the good life – as most persons would agree. But all this is by the way; the matter at issue here is not the desirability of a more Spartan or Stoic style of life – which, incidentally, is not practiced by the rich of Asia, Africa, Europe, or you name it. It's just that more people in these fifty states are enabled to enjoy more material wealth than all but a handful of people elsewhere, and so we are conspicuous enough to provoke the carefully nurtured envy of the rest of the world. Should Americans deliberately lower their living standards? Well, perhaps there are good reasons for a return to plain living, hard work and the Puritan ethic – but deferring to local liberals and critics from the Have-not nations is not one of them!

Productivity the Key

Americans do consume more on the average than the people of other nations. It might be interesting to ask why. The answer is clear: Americans consume more because Americans produce more. If the people of India want to consume more, they'll have to learn to become more productive. And America is bursting with people who would be delighted to tell them how to increase their productivity. You merely have to accumulate capital at a faster rate than population growth, so that each worker will have more and more machinery, tools, and equipment. Productive efficiency, in other words, requires institutional incentives for capital accumulation – such as widespread belief in the sacredness of private property; an ethic which exalts honesty, thrift, and hard work; the idea of inherent rights, and so on. A nation that builds on a foundation like this is bound to prosper, as America has.

Suppose the American government continues to yield to the pressure of envy stemming from the Have-not nations, and increases the tax bite on American citizens so that they will consume less. Suppose, in other words, that a larger and larger percentage of the goods produced here annually is siphoned off and shipped abroad.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

What will happen to production here when our people are prevented from enjoying its fruits? You know what will happen to it; production will decline, inevitably. Why does a man produce? He produces in order to consume; consumption is the end in view of all productive activities. If everything a man produces is taken from him he'll stop working; and if fifty per cent is taken from him he'll slow down.

The upshot is that the worst help we can give to the Have-not nations is to inflict policies upon Americans which will inevitably make us dollars poorer without making the Have-not nations a penny richer.

This envy/guilt syndrome provides an interesting glimpse into the Socialist mentality, which has little concern with production, with the way material goods come into existence. Socialists are preoccupied with the political redistribution of the already existing stock. There is, in fact, only one way to make economic goods appear, and that is to apply human energy, augmented by tools and machinery, to raw material. Human labor applied to natural resources is the only way to produce food, clothing, shelter, and the amenities; but the Left has no interest in this process, let alone in increasing its efficiency.

Tax and Subsidize

The attention of the Left is focused on taxing producers and subsidizing consumers. Assuming that production occurs by magic, automatically, Socialism has no program except to seize property from the Haves and distribute it to the Have-nots. The guaranteed end result of this to to enforce domestic poverty and spread hunger around the globe. But a certain glamour attaches to any Robin Hood operation which promises to take from the rich and give to the poor – and some of this glamour lingers even after it has become plain that Robin the Hood is actually robbing both rich and poor for the benefit of Robin!

As a result of economic progress, a society moves up from a situation where just about everybody is poor to one characterized by general prosperity, shared by all but a few. That is to say, there will be pockets of poverty in any prosperous society, and the contrast between rich and poor makes the residual poverty painfully obvious to all compassionate people. Indignation suggests a remedy which appears obvious to those who respond emotionally, without thinking. If some are better off than others, why pass a law to deprive the former of a portion of their property and dole it out to those in need! Not an efficient procedure, by the way;

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

it costs the government several dollars to give one dollar to "the poor."

Imagine a system of medicine where doctors blamed sickness on the healthy, and sought to cure illness by making the well sick! This is madness, and if this tactic were used in medicine few patients would survive. Economic distress likewise; poverty cannot be relieved unless we known its cause, and this means that we must also learn the cause of prosperity, for poverty can be overcome by productivity, and in no other way.

Prosperity in a nation is generated by efficiency in production, and productive efficiency demands such things as a climate of freedom, security for property, the accumulation of capital, progressive technology, good work habits, skillful management, and the like. It follows that any impairment of the functioning of any or all of the factors that cause prosperity makes people poorer. Here are some examples of political interventions which hamper productivity: confiscatory taxation which diminishes the supply of capital; minimum wage laws which disemploy large numbers of people; monopoly unionism which institutionalizes unemployment by exacting an above-the-market wage and imposing a rigid wage structure; price and wage controls; inflation.

Such political interventions as these do no one any good, and they do some people immense harm. Those most severely affected are the very ones whose plight arouses our sympathy and causes some short-sighted citizens to demand drastic government action to correct disparities in income! The only sound strategy is to apply the formula for prosperity across the boards; and this means that we must find some way of stopping government from hurting people by unwise legislation. Unshackle production, turn the market loose, and everyone will share – more or less – in the ever-increasing prosperity.

Of course, it is not enough for a nation to be merely prosperous; riches don't bring happiness. A happy person is one who has something to live for, whose way of life challenges him to draw upon his powers and exert his full potential. Material well-being – food to nourish you, clothing to keep you warm, shelter against the elements – material well-being is one element in the good life. But in our time this one element looms so large in the eyes of many that evidence of economic distress anywhere is all the excuse they need to demand a program that will wreck the system which produced our prosperity! It is as if a doctor had treated a completely paralyzed patient with some miracle drug which restored func-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tion to arms and legs but left the former patient with one stiff knee, and was then accused of malpractice and blamed for the man's game leg!

Justice and Charity

Justice first; no legislation designed to give some an economic advantage at the expense of others, no arbitrary controls which prevent people from being as productive as they choose to be. Then, after justice, charity – which is simply an acknowledgement that some handicapped people can't cope. The scope of private philanthropy is still enormous, even after a generation of government welfare schemes. The springs of compassion have not run dry, and it is obvious that they run more freely in the voluntary sector of society than in the coercive governmental sector. The coercive sector hits John Doe with heavy taxation during his productive years and uses *his* money to finance programs he's against. Doe is tens of thousands of dollars poorer as a result. During the same period the Social Security tax deprives this man of thousands more. And all the while government is inflating the currency which increases the price of everything John Doe buys. When retirement comes, the government leaves John Doe with a lot less money than he actually earned during his productive period, and it cheapens the value of every dollar it gives him during his latter years. This is how government takes care of the poor!

There is no doubt in my mind that envy, covetousness and guilt – plus plain stupidity and ignorance – are of Socialism's essence. Socialism would stall at ground level if it could not inflame these feelings and shortcomings. But there are other causes contributory to the advance of Socialism in our time. There's idolatrous religion. We live in a period when the traditional religious faiths no longer exert the hold they once had over the minds of millions of people. The predominant world view is earthbound, with little or no place for the dimension of transcendence, or the sacred. Unable or unwilling, therefore, to make a religion of Religion, many twentieth century people make a religion of politics or economics.

A Religious Impulse

The term religion has reference, on the one hand, to intensity of belief and devotion; and, on the other hand, it has to do with the object which inspires this intense belief and devotion. Lacking a transcendent object, God, because of the prevailing earthbound world view, intense belief and devotion will affix itself to some object whose nature does not merit worship, such as the State, or Revolution. Thus

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Socialism or Communism becomes an *ersatz* religion for millions of people in our time.

The case of H. G. Wells is instructive. Wells was an early Fabian, and until the disillusionment of his late years, worked tirelessly for the advancement of Socialism. "Socialism," he wrote, "is to me a very great thing indeed, the form and substance of my ideal life, and the only religion I possess. I am, by a sort of predestination, a Socialist." Similar sentiments have been voiced by a multitude of the intellectual, literary, scientific, and political leaders of our time. Perversely, the low ebb of spiritual religion in our time has affected the churches, making it possible for men whose real religion is reform or revolution to capture large segments of the church for Socialism – by controlling various sounding boards, such as editorial offices, teaching and preaching posts, social action committees, interchurch councils.

And just as the religious impulse has been bent to the uses of Socialism, so has the artistic impulse. The artist cannot "let nature take its course"; he must impose significant form upon it, bringing his kind of order out of what appears to him to be chaos. Twist the artistic vision around to society, and lo! the planned economy! The untutored mind does not sense the magnificent and intricate order in a free society, which is the result of human action but not the consequence of human design. Merely enforce a few simple rules against theft, fraud and murder, enforce contracts, redress injury – and within these few rules people acting freely and productively will project an order so complicated that it defies human understanding. Could we fully understand it, economic calculation apart from a market would be feasible – which it is not.

The artist in us dislikes loose ends, insists on tidying things up, is caught up in a vision it feels bound to realize. Fine, on canvas! But if you insist on a certain preplanned order and pattern as an end result in your society – the nation as a work of art – it is obvious that this overall goal cannot be achieved if everyone in the society is free to pursue his own peaceful goals. There is no way to achieve a unitary National Goal except by nullifying individual goals.

Diversity Encouraged

The free society not only tolerates individual differences, it encourages diversity on the ground that each person has his unique contribution to make to the total richness. This position runs counter to the pressure for uniformity in this age of mass man. The advocate

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of the free society, therefore, runs the risk of rubbing people the wrong way; often he has to make his case against the grain of human nature which hates dissent. In order that a society may be free, a great many people must exhibit a much higher level of tolerance for individual eccentricity than has hitherto prevailed.

The believer in freedom, then, is like a salesman trying to persuade people to buy a product, by telling them that, chances are, there are things about it they won't much like after they get it! That's a hard sell! Freedom means putting up with a lot of things you don't like, and living with a lot of people you can barely stand. Freedom of speech and press, of religion and economics, means that other people will say, print, believe and produce things which we might find distasteful. Freedom doesn't come cheap; it costs, and those unable or unwilling to pay the price will never achieve freedom, nor will they retain the freedom they now enjoy.

The late Dean Inge used to say that labels are libels! How shall we label the social system of America, England, and some European nations in the period between the Civil War and the New Deal? It was an age marked by a great expansion of science and technology, so we might speak of the Age of Science. A fine historian characterized the period as the Age of Materialism. Democracy took over as the kings departed, and that label is popular. The mode of production during this century was "capitalist," the label given currency by Marx. It suited the Communists to use one label, "Capitalism," for the social system they wanted to destroy, rather than, say, "Democracy."

A Deadly Label

Now, a modern western nation is an exceedingly complex affair, and it takes patient analysis to understand any single phenomenon of the many it exhibits. A social evil demands attention and it takes knowledge and skill to trace out its root causes. Much simpler to blame everything that goes wrong on Capitalism! Why poverty? Capitalism! Why the Great War? Capitalism! Why the Great Depression? Capitalism! Why unhappiness? Capitalism! Nothing was better calculated to deaden the analytical and critical faculties of several generations of intellectuals than this Marxist strategy; it worked; "social scientists" were conditioned to salivate on demand over the prospect that they had been chosen to lead humanity into the promised land.

Some able men are attracted to Socialism because it pretends to be scientific and progressive; and they

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

regard themselves as scientific and progressive. But it is obvious that the mass of ordinary people are quite otherwise; they are stubborn and backward, and consequently, they make a mess of things. They refuse to accept the best scientific information available to them, preferring instead to be sloppy and unscientific. Witness their life style, their eating habits, the way they rear children, their resistance to new trends in schooling, the foolish way they spend their money, their superstitions! The indictment against the man in the street is a lengthy one, and the conclusion is that ignorant people such as this cannot be trusted to run their own lives. Any volunteers for the job of running people's lives for them? Of course! Lots of highbrows believe themselves competent to operate a progressive society along scientific lines, all for the people's own good, of course.

Who Shall Live Your Life?

Now, it may be true that a lot of people exercise but little wisdom in running their own lives, but it is a *non sequitur* to deduce from this that A's situation will be improved if B runs A's life for him against A's will! We know that this cannot work because it violates the basic law of life, a law as fundamental in human affairs as the law of gravity in Newtonian physics: *Each person is in control of his own life,* and if he doesn't take charge of himself no one can assume this responsibility for him.

Life is a chancy thing, and of course we all make mistakes. But the mistakes we make while running our own affairs will teach us something, and we're on earth to learn. As St. Augustine put it, "We are here schooled for life eternal." Unless we are allowed to make our own mistakes, to pick ourselves up after every failure, and stand taller with every success, the learning process is stymied. The great issue here is between those who regard human beings as mere things to be manipulated into some social pattern, versus those who believe that persons need liberty, because without it they cannot work out their proper destiny, which requires this life and the life to come for fulfillment.

The attention so far in this paper has been directed at "them," people of the Left, Liberals, Socialists. What about "us"; free enterprisers, capitalists, businessmen? Do people get turned on to Socialism because of us? I'm afraid they do. Now, no one can really blame an ordinary businessman for not understanding the theory of the free economy, and for his inability to articulate its concepts clearly. The blame, if any is to be laid, attaches to intellectuals who dig no deeper

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

than this for their understanding of the free economy. Admittedly, however, it does not make our chore any easier when business organizations seek government favors for their members, or rush forward to praise wage and price controls.

But the real problem is elsewhere. A sharp distinction must be made between the economic theory of the free market and the ideologies erected around market theory by its self-proclaimed defenders. How many potential supporters of the free economy have been turned off by hearing certain ideologues of capitalism loudly proclaim that you have to be an atheist before you can become a genuine capitalist! Or you have to be a rationalist. Or a utilitarian. Or an anarchist. Furthermore, it is difficult for an outsider to judge the arguments for the free market on their economic merits if he has to wade through dubious notions of history, art, literature, psychology, ethics and religion to get to them! High level arguments in economic theory coupled with low level arguments in the ideological framework are not very damaging to Socialism, but they can make a shambles of Capitalism! It is only within the right philosophical structure that the market becomes the market economy, and that structure needs shoring up.

Economic action is necessary to survival, but by itself it cannot generate the free economy. The food, clothing, and shelter without which no people can exist are produced by human exertion on natural resources, and there is no other way. The division of labor is as old as mankind; people have always traded and bartered. These interlocking events constitute the market, and the market is ubiquitous. But the ever-present market does not become the market economy by spontaneous generation; nonmarket factors must be present to act as catalytic agents. Create a political structure around belief in the inviolability of the individual person and you have a context of liberty and justice for all in which property is respected and free choice maximized. The market, then, is institutionalized as the free economy. Neglect this necessary political framework – the one we inherited from the eighteenth century – and as it decays it will take the free economy down with it.

Our Fear of Freedom

There is something in human nature itself which makes us ambivalent toward freedom. Human beings would never strive for a free society unless the urge to be free were a drive deeply rooted in human nature; and we wouldn't *have* to strive for freedom – nor periodically lapse into despotism – were

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

there not a paradoxical strain in our make-up which fears freedom. Let me try to elucidate.

Each of us has his own life to live, his own ends to achieve. We are purposive beings, so we project a series of goals which constitute our lifelong pursuits, and we set up various targets for occasional endeavors. It is a self-evident truth that each of us wants maximum freedom to live the life that is ours and to pursue the goals we have chosen for ourselves. It is inconceivable that anyone in his right mind would deliberately invite other people to impair his freedom of action, for no one can set goals for himself and simultaneously ask other people to prevent him from reaching them! If, in some bizarre situation, a person does ask another to restrain him, then his real goal is to be restrained – no matter what he says his goal is.

The most evil tyrant imaginable, whose goal is to extinguish human liberty, does not want impediments placed between himself and his goal; he wants to be free to wield power unconditionally. Everyone, in short, desires his own freedom; but not everyone is seriously concerned that all other persons have as much freedom of action as he has. Very few people, as a matter of fact, favor equal freedom – a social condition of maximum freedom of action for everyone. And there's the rub! Freedom for yourself is a biological urge; the will to equal freedom for everyone stems from a more complex facet of our nature.

Man Must Think and Choose

No person can help wanting freedom for himself. This is part of our fight for survival, the struggle to continue in existence. Man shares this with every other living thing. But every living organism – except man – has a built-in servomechanism which preserves the nature and guarantees the continuing identity of the organism in question, whether tree, tiger, oyster, or whatever. The truly human person, however, is a different kind of creature; we cannot complete our nature – realize our potential to the full – without deliberately willing to do so. Our inner freedom is so flexible that each person has a lot of latitude in choosing what he will make of his life. Your final destiny depends on the wisdom of your daily resolves. Each of these daily and hourly decisions we make, breeds consequences – for which we must assume responsibility, and with which we have to live. This is intrinsic to the human situation.

Things would be much simpler if we could just sit back and let Nature take its course with us, as Nature does take its course with animals. It'll never happen! Nor can we be wound up like robots to

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

function as we should, as T. H. Huxley once wished. Belying his name as "Darwin's bulldog," the famous scientist said, "If some great power would agree to make me always think what is true and do what is right, on condition of being wound up every morning before I got out of bed, I should instantly close with the offer." Don't wait, the offer will never be made!

We are neither robots nor animals. We are persons, gifted with an inner freedom, which puts us under the necessity of choosing, where we face the constant risk of making wrong choices. We are responsible beings, and the burden weighs heavy on us. This is the freedom we dread — our unique freedom which forces us to strive constantly if we would attain our humanity. It is in this fear of freedom that Socialism takes root. Socialism offers the siren promise that we need not be individually responsible, either for ourselves or for anyone else. "They" will be responsible for us, and at the same time relieve us of any obligation toward others; the burden of being human will be lifted from our shoulders.

Human nature, then, exhibits these two facets; the biological urge to be free, and the all-too-human wish to shirk responsibility. The biological drive to be free manifests itself in some types as a grab for power, a lust to dominate others. This is a constant threat latent in human nature, which is why every period in history has to contend with tyrants and dictators. That history is not one unbroken record of tyranny, that freedom ebbs and flows, is due to the fact that this authoritarian thrust in human nature may be rechanneled. Such rechanneling is our first line of defense against tyranny, and it consists of moral and religious restraints on the will to power which the authoritarian accepts as binding upon himself. The energies of the might-have-been tyrant are redirected in constructive ways.

There is a second line of defense against tyranny. This barrier is located in the hearts and minds of the to-be-tyrannized-over; it is a deeply felt conviction which affirms, in the familiar words of the Eighteenth Century: "Resistance to tyrants is obedience to God." Our ancestors believed that life and liberty were inseparably joined; both were gifts of God. And because no one could fully serve his Maker unless he was free, freedom was just as precious as life itself. No person who acquiesced in tyranny could fulfill his life's purpose.

In a nation where both lines of defense are in working order there is maximum liberty for all persons. On the one hand, inner restraints

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

quench the thirst for power; and on the other, a people, who know that the purpose of life cannot be realized unless they are free, will be alert to detect the slightest threat to their liberties. But when the would-be tyrant recognizes no inner curbs on power, and when the populace invites him to rule over them because they shirk the responsibility and burdens of being human, then the dictatorship is total.

To be a person, means accepting full responsibility for our acts of choice and our conduct. But the prevailing earthbound ideology instructs us that we don't really possess free will, and because we are the mere end products of our natural and social environment we are not responsible for ourselves. Accept this blighting ideology and the will to freedom withers; you have optimum conditions for tyranny. The same materialistic ideology which convinces the multitudes that they are not responsible convinces authoritarians that there are no inner restraints on power. Dictatorship gets the message: All systems go! The tidal movement of Socialism in the twentieth century is no mystery.

You'd like to roll back this tide? It's very simple! The social order outside of us is a reflection of the mental and moral situation inside of us. If there is social *dis*order, we may infer that there is *dis*order within, in our hearts and minds. The great Spanish philosopher, Ortega y Gasset, puts it this way: "Any explanation of the visible changes appearing on the surface of history which does not go deep down until it touches the mysterious and latent changes produced in the depths of the human soul is superficial."[1] Each person, therefore, must first work on himself before his improved understanding can radiate to those in his orbit.

If only we could straighten out our own thinking we might order our lives aright, and if a significant number of people did this, then the society – which, after all, is but a reflection of ourselves – would begin to square itself away. This is a slow way to go, but it is the only way.

If we have looked back over history to learn the lessons taught by the rise and fall of nations, we know that societies never die of old age but only of autointoxication. We learn that civilizations have been, and can be, rejuvenated – from within! What other peoples have done in times past we can do today and tomorrow – provided we have the will to do it. We have all the ingredients for the restoration of our society; only the will is lacking – and only individual decision can make that up!

[1] *What Is Philosophy?*, p. 31.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Two Cheers for the Affluent Society

OF ALL the silly movements that have afflicted western society in recent years, the anti-growth crusade is by all odds the strangest. It enjoys a great press, it passes for idealism, and it boasts a concern for the "quality of life." It certainly commands the TV cameras. But when it is subjected to the harsh light of analysis in Wilfred Beckerman's witty *Two Cheers for the Affluent Society* (St. Martin's Press, $7.95), it must be seen for what it really is.

Dr. Beckerman, a British economist, says it straight out: the "no-growth" lobby is guilty of making a profoundly undemocratic assault on the poor who, if they are to be denied access to slices from a bigger pie, must continue to be second-class citizens in the richer nations and starveling outcasts in those countries that are still struggling to catch up with the technologically proficient "West."

Dr. Beckerman's main weapon is logic. He does not deny that we have pollution problems, but if they are to be solved there must be funds – and technological means – to do it. The worst pollution is to be found in poorer nations that have not yet achieved a surplus that can be turned into such things as water purification, sewers and the eradication of disease-bearing insects and rats. It is only when incomes are rising that people feel they can spare the money needed to improve the "environment," which, as a priority, must come after the pangs of hunger have been assuaged.

Dr. Beckerman uses a somewhat

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

stiff economic lingo to make his most critical point. The "pollution problem" is a "resource allocation" problem. If there were unlimited supplies of clean water and clean air, pollution would be too small an item to have a significant effect on the environment. But clean water and clean air can become "scarce resources" at certain population levels.

Paying the Price

If producers are not compelled to pay for their use of clean air and water as scarce resources, they will not do it. But if "society," as the "owner" of the air and water, is going to "collect" on their "sale" to the producer in order to finance anti-pollution campaigns, it must be expected to see the charge passed along into price. It is Dr. Beckerman's thesis that only the more affluent economies can afford the price. So we come back to the need for continuing growth to finance the "extra" charges for keeping the environment clean and in ecological balance.

Dr. Beckerman does not deify the concept of GNP, or Gross National Product. There are lots of riches, such as leisure time, that do not get measured in any proper sense in GNP. There are various types of welfare that are of an "unmeasured kind" such as swimming in a clean stream or walking in the mountains. But if the measurable GNP is not increasing, the poor must be deprived of the income that supports upward mobility. Lacking cars, they won't be able to seek out clean beaches or pretty woodland walks.

Computing "Known Reserves"

But what if the world's resources can't support a continued growth of GNP for all the nations? Dr. Beckerman admits that we would then be in a pickle, particularly if populations continue to grow. The "eco-doomsters," however, have confused "nonrenewable" resources with "nonreplaceable" ones. They have also failed to reckon with the "marginal utility" aspects of computing "known reserves." After all, one does not go looking for new "known reserves" until the older reserves begin to command a higher price. Invariably new reserves of iron ore, copper, oil or whatnot are discovered whenever it becomes profitable to discover them. Conceivably the day will come when copper and oil will be exhausted. But not in this century or the next.

Even if limits for certain raw materials are reached, the innovative human being is quite capable of "replacing" the "nonrenewables" with synthetics or substitutes. Bauxite was once a useless form of earth. But when the innovative

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

human animal learned how to extract aluminum from bauxite, the "reserves" behind our store of cooking pots and airframe covers became practically inexhaustible. There threatens to be a short supply of tungsten, which is needed for conventional light bulbs. But fluorescent strip lighting, which is coming more and more into use, does not require tungsten. If we had less copper, it would hurt the production of standard telephone lines. But Dr. Beckerman looks forward to the day when telephone messages will speed along glass fiber conductors acting as waveguides for laser beams.

What is a "Resource"?

The Club of Rome, feeding material about disappearing resources into a computer, has despaired of the chances for continuing growth on a world scale. But new things are constantly becoming "resources" over time. Sea water contains a billion year's supply of sodium chloride and magnesium and a hundred million year's storehouse of sulfur and borax. Nitrogen can be "fixed" by separating it from liquefied air. Manganese nodules are scattered all over the sea beds.

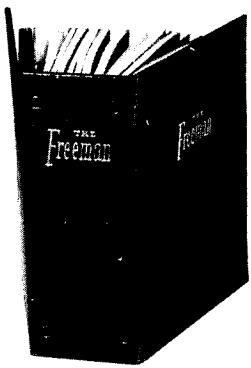
As Dr. Beckerman says, what is a "resource" depends on economic conditions determining usefulness. In a kidding way Dr. Beckerman wonders how "economic growth has managed to keep going without any supplies at all of Beckermonium, a product named after my grandfather who failed to discover it in the nineteenth century. In fact, we manage very well without an infinite number of products that have never been discovered." So what if we hadn't discovered nickel? Would that mean that civilization would be impossible?

Efficient Agriculture

Food, of course, is a troublesome item in times of expanding populations and changing patterns of rainfall and drought. But Dr. Beckerman quotes a Cambridge Professor of Organic Chemistry who insists that if all the land that is now cultivated were to be farmed as efficiently as it is in the Netherlands, the world could support 60 billion people – or ten times as many as are expected to be around at the end of the century. And this makes no allowance for land not yet brought under cultivation in Latin America, Australia and parts of Asia.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Reading Dr. Beckerman, one becomes a little less inclined to make a fetish of the so-called ecosystem. After all, the ecosystem of the moment happens to be the sum of past changes, including the disruption of former ecosystems. The history of the world is a record of ecological catastrophes, in most of which man played no role at all. Giant lizards have disappeared, continents have drifted apart, ice ages have come and gone, volcanoes have thrown tons of contaminating material into the air. So what is "ecoolgical balance"? It consists of a status quo that will, even without the prodding of man, give way to other status quos. Must we worship the ecosystem of the moment? If we do, it will be merely another way of writing on water.



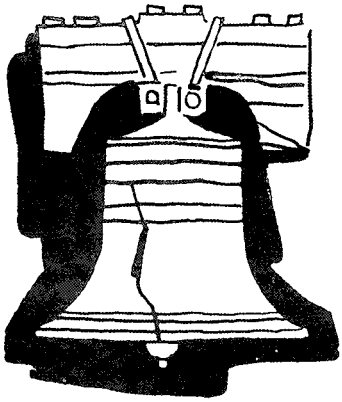
HANDSOME BLUE LEATHERLEX

FREEMAN BINDERS

$2.50 each

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



Proclaim liberty throughout all the land...

How better to celebrate the U.S. Bicentennial than to share these ideas on liberty with a friend! There's a handy arrangement for mailing on the back cover. If you need more, extras of most recent issues are available — up to 10 copies, no charge.

NOTE: Any interested individual is added to FEE's mailing list for the asking. No one is solicited for funds. FEE is financed by such contributions as individuals, companies, and foundations choose to make, **on their own initiative.**

THE FOUNDATION FOR ECONOMIC EDUCATION
IRVINGTON-ON-HUDSON, NEW YORK 10533

☐ Please add my name to receive THE FREEMAN, 64-page monthly study journal of free market, private property, limited government ideas and ideals; plus NOTES FROM FEE, a 4-pager devoted to libertarian methods, issued every other month.

☐ Send a resume of FEE's activities, setting forth aims and methods, including a list of Officers and Trustees.

Name _____ (Please print)

Street _____

City _____ State _____

Zip Code _____

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Place 16-cent postage here

FROM

TO: _____

STREET _____

CITY _____

STATE _____ ZIP CODE

JULY 1975

The Great American Revolution	Ralph Bradford	387
Slings and Arrows	Joan Wilke	394
The Impact of Inflation on Management Decisions	William H. Peterson	399
Another Layer of Protection?	Earl W. McMunn	412
Equal Opportunity versus Individual Opportunity	Anne Wortham	416
Profit and Loss	Brian Summers	424
Why Do "They" Turn to Socialism?	Edmund A. Opitz	429
Books:		
Two Cheers for the Affluent Society	John Chamberlain	445

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED